

PROSPECTUS

**Banco Espírito Santo, S.A.**

*(Incorporated with limited liability in Portugal)  
(acting through its head office or its Madeira branch or its Cayman Islands branch  
or its London branch or its Luxembourg branch)*

and

**BES Finance Ltd.**

*(Incorporated with limited liability in the Cayman Islands)  
unconditionally and irrevocably guaranteed by*

**Banco Espírito Santo, S.A.**

*(Incorporated with limited liability in Portugal)  
(acting through its London branch)*

**€20,000,000,000 EURO MEDIUM TERM NOTE PROGRAMME**

This Prospectus is valid for the purpose of the listing of Notes on the Official List of the Luxembourg Stock Exchange and the admission to trading of the Notes on the regulated market of the Luxembourg Stock Exchange, for a period of one year from the date of publication. Any Notes (as defined below) issued under the Programme on or after the date of this Prospectus are issued subject to the provisions herein. This Prospectus does not affect any Notes already issued. Under the €20,000,000,000 Euro Medium Term Note Programme (the "Programme"), each of Banco Espírito Santo, S.A. (the "Bank" or "BES"), acting through its head office or its Madeira branch or its Cayman Islands branch or its London branch or its Luxembourg branch, and BES Finance Ltd. ("BES Finance" and, together with the Bank in its capacity as an issuer of Notes under the Programme, the "Issuers" and each an "Issuer") may from time to time and, subject to applicable laws and regulations, issue notes (the "Notes", which will include Senior Notes and Subordinated Notes (as such terms are defined below)) denominated in any currency agreed between the Issuer of such Notes (the "relevant Issuer") and the relevant Dealer (as defined below).

The payments of all amounts owing in respect of the Notes issued by BES Finance will be unconditionally and irrevocably guaranteed by the Bank, acting through its London branch, pursuant to the Trust Deed (as defined herein).

The Final Terms (as defined below) for each Tranche (as defined on page 90) of Notes will state whether the Notes of such Tranche are to be (i) senior Notes which, in the case of Notes issued by BES Finance, will be guaranteed on an unsubordinated basis ("Senior Notes") or (ii) dated subordinated Notes which, in the case of Notes issued by BES Finance, will be guaranteed on a subordinated basis ("Subordinated Notes").

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €20,000,000,000 or such greater amount as may be agreed from time to time in accordance with the terms of the Programme Agreement (or its equivalent in other currencies calculated as described herein). The Notes may be issued on a continuing basis to one or more of the Dealers specified below and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers"). References in this Prospectus to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".**

Application has been made to the Commission de Surveillance du Secteur Financier (the "CSSF") in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 on prospectuses for securities, as amended (the "Prospectus Act 2005") to approve this document as a base prospectus for the purposes of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "Prospectus Directive"). The CSSF assumes no responsibility as to the economic and financial soundness of the transactions contemplated by this Prospectus or the quality or solvency of the Issuers in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the Official List of the Luxembourg Stock Exchange. References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche of Notes will be set forth in the final terms (the "Final Terms") which, with respect to Notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange, will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer, and the relevant Dealer. Each Issuer may also issue unlisted Notes.

In the case of Notes held through Interbolsa-Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("Interbolsa") (each an "Interbolsa Note") the Notes of each Tranche will be in book-entry form (*forma escritural*) and can be either registered Notes (*nominativas*) or bearer Notes (*ao portador*), as specified in the applicable Final Terms. The Notes of each Tranche (other than Interbolsa Notes) will be in bearer form. Bearer Notes other than Interbolsa Notes will (unless otherwise specified in the applicable Final Terms) initially be represented by a temporary global Note, which may be in new global note form, which will be exchangeable either for interests in a permanent global Note or for definitive Notes, as indicated in the applicable Final Terms, all as further described in "Form of the Notes" below.

The relevant Issuer, the Bank, acting through its London branch, (where the relevant Issuer is BES Finance) and (in respect of Notes other than Interbolsa Notes) the Trustee may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to this Prospectus, a drawdown base prospectus or a new base prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be disclosed in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation") will be disclosed clearly and prominently in the Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Bank has a rating of "BB-" by Standard & Poor's Credit Market Services Europe Limited ("S&P"), "Ba3" by Moody's Investors Service España, S.A. ("Moody's") and "BBB (low)" by DBRS, Inc. ("DBRS"). S&P, Moody's and DBRS are established in the European Union and are registered under the CRA Regulation (as amended). As such S&P, Moody's and DBRS are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

**Arranger  
HSBC**

**Dealers**

**BANCA IMI  
BARCLAYS  
BoFA MERRILL LYNCH  
COMMERZBANK  
CREDIT SUISSE  
ESPIRITO SANTO INVESTMENT BANK  
HSBC  
LANDESBANK BADEN - WÜRTTEMBERG  
MORGAN STANLEY  
SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING  
UBS INVESTMENT BANK**

**BANCO ESPÍRITO SANTO  
BNP PARIBAS  
CITIGROUP  
CRÉDIT AGRICOLE CIB  
DEUTSCHE BANK  
GOLDMAN SACHS INTERNATIONAL  
J.P. MORGAN  
MITSUBISHI UFJ SECURITIES  
NOMURA  
THE ROYAL BANK OF SCOTLAND  
UNICREDIT BANK**

The date of this Prospectus is 17th July, 2013

## IMPORTANT INFORMATION

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive.

Each of BES Finance and the Bank accepts responsibility for the information contained in this Prospectus and the Final Terms (as defined below) for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of BES Finance and the Bank (each having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus. Each of BES Finance and the Bank accepts responsibility for the accuracy of the translations into English of such documents.

Neither the Dealers nor the Trustee have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by BES Finance or the Bank in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of BES Finance and the Bank under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by BES Finance, the Bank, the Trustee or any of the Dealers.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by BES Finance, the Bank, the Trustee or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of BES Finance and/or the Bank. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of BES Finance or the Bank or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning BES Finance and/or the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of BES Finance or the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

## IMPORTANT INFORMATION RELATING TO NON-EXEMPT OFFERS OF NOTES

### Restrictions on Non-exempt offers of Notes in Relevant Member States

Certain Tranches of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) may be offered in circumstances where there is no exemption from the obligation under the Prospectus Directive to publish a prospectus. Any such offer is referred to as a Non-exempt Offer. This Prospectus has been prepared on a basis that permits Non-exempt Offers of Notes. However, any person making or intending to make a Non-exempt Offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) may only do so if this Prospectus has been approved by the competent authority in that Relevant Member State (or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State) and published in accordance with the Prospectus Directive, provided that the relevant Issuer has consented to the use of this Prospectus in connection with such offer as provided under "*Consent given in accordance with Article 3.2 of the Prospectus Directive (Retail Cascades)*" and the conditions attached to that consent are complied with by the person making the Non-exempt Offer of such Notes.

Save as provided above, none of BES Finance, the Bank and any Dealer has authorised, nor do they authorise, the making of any Non-exempt Offer of Notes in circumstances in which an obligation arises for the relevant Issuer or any Dealer to publish or supplement a prospectus for such offer.

### Consent given in accordance with Article 3.2 of the Prospectus Directive (Retail Cascades)

In the context of a Non-exempt Offer of such Notes, the relevant Issuer accepts responsibility, in the jurisdictions to which the consent to use the Prospectus extends, for the content of this Prospectus under Article 6 of the Prospectus Directive in relation to any person (an **Investor**) who acquires any Notes in a Non-exempt Offer made by any person to whom such Issuer has given consent to the use of this Prospectus (an **Authorised Offeror**) in that connection, provided that the conditions attached to that consent are complied with by the Authorised Offeror. The consent and conditions attached to it are set out under "*Consent*" and "*Common Conditions to Consent*" below.

None of BES Finance, the Bank or any Dealer makes any representation as to the compliance by an Authorised Offeror with any applicable conduct of business rules or other applicable regulatory or securities law requirements in relation to any Non-exempt Offer and none of the Issuers or any Dealer has any responsibility or liability for the actions of that Authorised Offeror.

**Except in the circumstances set out in the following paragraphs, none of BES Finance, the Bank and any Dealer has authorised the making of any Non-exempt Offer by any offeror and the relevant Issuer has not consented to the use of this Prospectus by any other person in connection with any Non-exempt Offer of Notes. Any Non-exempt Offer made without the consent of the relevant Issuer is unauthorised and none of BES Finance, the Bank and any Dealer accepts any responsibility or liability for the actions of the persons making any such unauthorised offer.** If, in the context of a Non-exempt Offer, an Investor is offered Notes by a person which is not an Authorised Offeror, the Investor should check with that person whether anyone is responsible for this Prospectus for the purposes of Article 6 of the Prospectus Directive in the context of the Non-Exempt Offer and, if so, who that person is. If the Investor is in any doubt about whether it can rely on this Prospectus and/or who is responsible for its contents it should take legal advice.

In connection with each Tranche of Notes and subject to the conditions set out below under "*Common Conditions to Consent*":

- (a) the relevant Issuer consents to the use of this Prospectus (as supplemented as at the relevant time, if applicable) in connection with a Non-exempt Offer of such Notes during the relevant Offer Period stated in the applicable Final Terms by the relevant Dealer and by:
  - (i) any financial intermediary named as an Initial Authorised Offeror in the applicable Final Terms; and
  - (ii) any financial intermediary appointed after the date of the applicable Final Terms and whose name is published on the Bank's website ([www.bes.pt](http://www.bes.pt)) and identified as an Authorised Offeror in respect of the relevant Non-exempt Offer;
- (b) if (and only if) Part B of the applicable Final Terms specifies "General Consent" as "Applicable", the relevant Issuer hereby offers to grant its consent to the use of this Prospectus (as supplemented as at the relevant time, if applicable) in connection with a Non-exempt Offer of Notes during the relevant Offer Period stated in the applicable Final Terms by any financial intermediary which satisfies the following conditions:
  - (i) it is authorised to make such offers under the Financial Services and Markets Act 2000, as amended, or other applicable legislation implementing the Markets in Financial Instruments Directive (Directive 2004/39/EC) (in which regard, Investors should consult the register maintained by the Financial Conduct Authority at: [www.fsa.gov.uk/register/home.do](http://www.fsa.gov.uk/register/home.do)); and
  - (ii) it accepts the relevant Issuer's offer to grant consent to the use of this Prospectus by publishing on its website the following statement (with the information in square brackets completed with the relevant information):

*"We, [insert legal name of financial intermediary], refer to the [insert title of relevant Notes] (the "Notes") described in the Final Terms dated [insert date] (the "Final Terms") published by [BES Finance Ltd.]/[Banco Espírito Santo, S.A.] (the "Issuer"). We hereby accept the offer by the Issuer of its consent to our use of the Prospectus (as defined in the Final Terms) in connection with the offer of the Notes in accordance with the Authorised Offeror Terms and subject to the conditions to such consent, each as specified in the Prospectus, and we are using the Prospectus accordingly."*

The **Authorised Offeror Terms**, being the terms to which the relevant financial intermediary agrees in connection with using the Prospectus, are that the relevant financial intermediary:

- (A) will, and it agrees, represents, warrants and undertakes for the benefit of BES Finance, the Bank and the relevant Dealer that it will, at all times in connection with the relevant Non-exempt Offer:
  - I. act in accordance with, and be solely responsible for complying with, all applicable laws, rules, regulations and guidance of any applicable regulatory bodies (the **Rules**), including the Rules published by the United Kingdom Financial Conduct Authority (**FCA**) (including its guidance for distributors in "*The Responsibilities of Providers and Distributors for the Fair Treatment of Customers*") from time to time including, without limitation and in each case, Rules relating to both the appropriateness or suitability of any investment in the Notes by any person and disclosure to any potential Investor, and will immediately inform the relevant Issuer, the Bank (where the Issuer is BES Finance) and the relevant Dealer if at any time such financial intermediary becomes aware or suspects that it is or may be in

violation of any Rules and take all appropriate steps to remedy such violation and comply with such Rules in all respects;

- II. comply with the restrictions set out under "*Subscription and Sale*" in this Prospectus which would apply as if it were a Dealer;
- III. ensure that any fee (and any other commissions or benefits of any kind) received or paid by that financial intermediary in relation to the offer or sale of the Notes does not violate the Rules and, to the extent required by the Rules, is fully and clearly disclosed to Investors or potential Investors;
- IV. hold all licences, consents, approvals and permissions required in connection with solicitation of interest in, or offers or sales of, the Notes under the Rules, including authorisation under the Financial Services and Markets Act 2000;
- V. comply with applicable anti-money laundering, anti-bribery, anti-corruption and "know your client" Rules (including, without limitation, taking appropriate steps, in compliance with such Rules, to establish and document the identity of each potential Investor prior to initial investment in any Notes by the Investor), and will not permit any application for Notes in circumstances where the financial intermediary has any suspicions as to the source of the application monies;
- VI. retain Investor identification records for at least the minimum period required under applicable Rules, and shall, if so requested, make such records available to the relevant Dealer, the relevant Issuer, the Bank (where the Issuer is BES Finance) or directly to the appropriate authorities with jurisdiction over the relevant Issuer, the Bank (where the Issuer is BES Finance) and/or the relevant Dealer in order to enable the relevant Issuer, the Bank (where the Issuer is BES Finance) and/or the relevant Dealer to comply with anti-money laundering, anti-bribery, anti-corruption and "know your client" Rules applying to the relevant Issuer, the Bank (where the Issuer is BES Finance) and/or the relevant Dealer;
- VII. ensure that no holder of Notes or potential Investor in Notes shall become an indirect or direct client of the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer for the purposes of any applicable Rules from time to time, and to the extent that any client obligations are created by the relevant financial intermediary under any applicable Rules, then such financial intermediary shall perform any such obligations so arising;
- VIII. co-operate with the relevant Issuer, the Bank (where the Issuer is BES Finance) and the relevant Dealer in providing such information (including, without limitation, documents and records maintained pursuant to paragraph (VI) above) upon written request from the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer as is available to such financial intermediary or which is within its power and control from time to time, together with such further assistance as is reasonably requested by the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer:
  - (i) in connection with any request or investigation by any regulator in relation to the Notes, the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer; and/or

- (ii) in connection with any complaints received by the relevant Issuer, the Bank (where the Issuer is BES Finance and/or the relevant Dealer relating to the relevant Issuer, the Bank (where the Issuer is BES Finance) and/or the relevant Dealer or another Authorised Offeror including, without limitation, complaints as defined in rules published by any regulator of competent jurisdiction from time to time; and/or
- (iii) which the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer may reasonably require from time to time in relation to the Notes and/or as to allow the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer fully to comply with its own legal, tax and regulatory requirements,

in each case, as soon as is reasonably practicable and, in any event, within any time frame set by any such regulator or regulatory process;

- IX. during the period of the initial offering of the Notes: (i) only sell the Notes at the Issue Price specified in the applicable Final Terms (unless otherwise agreed with the relevant Dealer); (ii) only sell the Notes for settlement on the Issue Date specified in the relevant Final Terms; (iii) not appoint any sub-distributors (unless otherwise agreed with the relevant Dealer); (iv) not pay any fee or remuneration or commissions or benefits to any third parties in relation to the offering or sale of the Notes (unless otherwise agreed with the relevant Dealer); and (v) comply with such other rules of conduct as may be reasonably required and specified by the relevant Dealer;
- X. either (i) obtain from each potential Investor an executed application for the Notes, or (ii) keep a record of all requests such financial intermediary (x) makes for its discretionary management clients, (y) receives from its advisory clients and (z) receives from its execution-only clients, in each case prior to making any order for the Notes on their behalf, and in each case maintain the same on its files for so long as is required by any applicable Rules;
- XI. ensure that it does not, directly or indirectly, cause the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer to breach any Rule or subject the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer to any requirement to obtain or make any filing, authorisation or consent in any jurisdiction;
- XII. comply with the conditions to the consent referred to under "*Common conditions to consent*" below and any further requirements relevant to the Non-exempt Offer as specified in the applicable Final Terms;
- XIII. make available to each potential Investor in the Notes the Prospectus (as supplemented as at the relevant time, if applicable), the applicable Final Terms and any applicable information booklet provided by the relevant Issuer for such purpose, and not convey or publish any information that is not contained in or entirely consistent with the Prospectus and the applicable Final Terms; and
- XIV. if it conveys or publishes any communication (other than the Prospectus or any other materials provided to such financial intermediary by or on behalf of the relevant Issuer for the purposes of the relevant Non-exempt Offer) in connection with the relevant Non-exempt Offer, it will ensure that such communication (A) is fair, clear

and not misleading and complies with the Rules, (B) states that such financial intermediary has provided such communication independently of the relevant Issuer, that such financial intermediary is solely responsible for such communication and that none of the relevant Issuer, the Bank (where the Issuer is BES Finance) and the relevant Dealer accepts any responsibility for such communication and (C) does not, without the prior written consent of the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer (as applicable), use the legal or publicity names of the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer or any other name, brand or logo registered by an entity within their respective groups or any material over which any such entity retains a proprietary interest, except to describe BES Finance or the Bank, as the case may be, as issuer of the relevant Notes and the Bank as the guarantor of the relevant Notes on the basis set out in the Prospectus;

- (B) agrees and undertakes to indemnify each of the relevant Issuer, the Bank (where the Issuer is BES Finance) and the relevant Dealer (in each case on behalf of such entity and its respective directors, officers, employees, agents, affiliates and controlling persons) against any losses, liabilities, costs, claims, charges, expenses, actions or demands (including reasonable costs of investigation and any defence raised thereto and counsel's fees and disbursements associated with any such investigation or defence) which any of them may incur or which may be made against any of them arising out of or in relation to, or in connection with, any breach of any of the foregoing agreements, representations, warranties or undertakings by such financial intermediary, including (without limitation) any unauthorised action by such financial intermediary or failure by such financial intermediary to observe any of the above restrictions or requirements or the making by such financial intermediary of any unauthorised representation or the giving or use by it of any information which has not been authorised for such purposes by the relevant Issuer, the Bank (where the Issuer is BES Finance) or the relevant Dealer; and
- (C) agrees and accepts that:
- I. the contract between the relevant Issuer and the financial intermediary formed upon acceptance by the financial intermediary of the relevant Issuer's offer to use the Prospectus with its consent in connection with the relevant Non-Exempt Offer (the **Authorised Offeror Contract**), and any non-contractual obligations arising out of or in connection with the Authorised Offeror Contract, shall be governed by, and construed in accordance with, English law;
  - II. subject to IV below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Authorised Offeror Contract (including any dispute relating to any non-contractual obligations arising out of or in connection with the Authorised Offeror Contract) (a **Dispute**) and the relevant Issuer and the financial intermediary submit to the exclusive jurisdiction of the English courts;
  - III. for the purposes of (C)(II) and (IV), the financial intermediary waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any dispute;
  - IV. to the extent allowed by law, the relevant Issuer, the Bank (where the Issuer is BES Finance) and each relevant Dealer may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions; and

- V. each relevant Dealer and (where the Issuer is BES Finance) the Bank will, pursuant to the Contracts (Rights of Third Parties) Act 1999, be entitled to enforce those provisions of the Authorised Offeror Contract which are, or are expressed to be, for their benefit, including the agreements, representations, warranties, undertakings and indemnity given by the financial intermediary pursuant to the Authorised Offeror Terms.

**Any financial intermediary who is an Authorised Offeror falling within (b) above who meets all of the conditions set out in (b) and the other conditions stated in "*Common Conditions to Consent*" below and who wishes to use this Prospectus in connection with a Non-exempt Offer is required, for the duration of the relevant Offer Period, to publish on its website the statement (duly completed) specified at paragraph (b)(ii) above.**

### ***Common Conditions to Consent***

The conditions to the relevant Issuer's consent to the use of this Prospectus in the context of the relevant Non-exempt Offer are (in addition to the conditions described in paragraph (b) above if Part B of the applicable Final Terms specifies "*General Consent*" as "*Applicable*") that such consent:

- (i) is only valid during the Offer Period specified in the applicable Final Terms;
- (ii) only extends to the use of this Prospectus to make Non-exempt Offers of the relevant Tranche of Notes in Portugal and Luxembourg, as specified in the applicable Final Terms; and
- (iii) the consent is subject to any other conditions set out in Part B of the applicable Final Terms.

The only Relevant Member States which may, in respect of any Tranche of Notes, be specified in the applicable Final Terms (if any Relevant Member States are so specified) as indicated in (ii) above, will be Portugal and Luxembourg, and accordingly each Tranche of Notes may only be offered to Investors as part of a Non-exempt Offer in Portugal and Luxembourg, as specified in the applicable Final Terms, or otherwise in circumstances in which no obligation arises for the relevant Issuer or any Dealer to publish or supplement a prospectus for such offer.

### ***ARRANGEMENTS BETWEEN INVESTORS AND AUTHORISED OFFERORS***

**AN INVESTOR INTENDING TO PURCHASE OR PURCHASING ANY NOTES IN A NON-EXEMPT OFFER FROM AN AUTHORISED OFFEROR WILL DO SO, AND OFFERS AND SALES OF SUCH NOTES TO AN INVESTOR BY SUCH AUTHORISED OFFEROR WILL BE MADE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE OFFER IN PLACE BETWEEN SUCH AUTHORISED OFFEROR AND SUCH INVESTOR INCLUDING ARRANGEMENTS IN RELATION TO PRICE, ALLOCATIONS, EXPENSES AND SETTLEMENT. THE RELEVANT ISSUER WILL NOT BE A PARTY TO ANY SUCH ARRANGEMENTS WITH SUCH INVESTORS IN CONNECTION WITH THE NON-EXEMPT OFFER OR SALE OF THE NOTES CONCERNED AND, ACCORDINGLY, THIS PROSPECTUS AND ANY FINAL TERMS WILL NOT CONTAIN SUCH INFORMATION. THE RELEVANT INFORMATION WILL BE PROVIDED BY THE AUTHORISED OFFEROR AT THE TIME OF SUCH OFFER. NONE OF BES FINANCE, THE BANK AND ANY DEALER (EXCEPT WHERE SUCH DEALER IS THE RELEVANT AUTHORISED OFFEROR) HAS ANY RESPONSIBILITY OR LIABILITY TO AN INVESTOR IN RESPECT OF THE INFORMATION DESCRIBED ABOVE.**



## IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. BES Finance, the Bank, the Dealers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Final Terms, no action has been taken by BES Finance, the Bank, the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, Italy, Luxembourg and Portugal), Cayman Islands and Japan, see "*Subscription and Sale*".

All references in this document to "U.S. dollars" and "U.S.\$" refer to United States dollars, those to "Sterling", and "£" refer to pounds sterling, and those to "Euro", "EUR" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

No invitation may be made to the public in the Cayman Islands to subscribe for the Notes.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes

are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

## TABLE OF CONTENTS

	<b>Page</b>
Summary.....	11
Risk Factors.....	31
General Description of the Programme.....	57
Documents Incorporated by Reference.....	58
Form of the Notes.....	61
Applicable Final Terms.....	64
Terms and Conditions of the Notes.....	89
Use of Proceeds.....	130
Banco Espírito Santo, S.A. and BES Group.....	136
Taxation.....	202
Subscription and Sale.....	218
General Information.....	222

## STABILISATION

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

## SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7). This Summary contains all the Elements required to be included in a summary for the Notes and the relevant Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in a summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element should be included in the summary explaining why it is not applicable.

### Section A – Introduction and warnings

Element	Title	
A.1	Introduction and Warnings	<p><b>Warning that:</b></p> <ul style="list-style-type: none"> <li>• <b>this summary should be read as introduction to the Prospectus;</b></li> <li>• <b>any decision to invest in the Notes should be based on consideration of the Prospectus as a whole by the investor;</b></li> <li>• <b>where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and</b></li> <li>• <b>civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.</b></li> </ul>
A.2	Consent	<p>[Certain Tranches of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) may be offered in circumstances where there is no exemption from the obligation under the Prospectus Directive to publish a prospectus. Any such offer is referred to as a <b>Non-exempt Offer</b>.]</p> <p>[<i>Consent:</i> Subject to the conditions set out below, the Issuer consents to the use of this Prospectus in connection with a Non-exempt Offer of Notes by the Managers[, [<i>names of specific financial intermediaries listed in final terms,</i>] [and] [each financial intermediary whose name is published on Banco Espírito Santo, S.A.’s website (www.bes.pt) and identified as an Authorised Offeror in respect of the relevant Non-exempt Offer] [and any financial intermediary which is authorised to make such offers under [the Financial Services and Markets Act 2000, as amended, or other [applicable legislation implementing the Markets in Financial Instruments Directive (Directive 2004/39/EC) and publishes on its website the following statement (with the</p>

Element	Title	
		<p>information in square brackets being completed with the relevant information):</p> <p><i>"We, [insert legal name of financial intermediary], refer to the [insert title of relevant Notes] (the "Notes") described in the Final Terms dated [insert date] (the "Final Terms") published by [Banco Espírito Santo, S.A.] [BES Finance Ltd.] (the "Issuer"). We hereby accept the offer by the Issuer of its consent to our use of the Prospectus (as defined in the Final Terms) in connection with the offer of the Notes in accordance with the Authorised Offeror Terms and subject to the conditions to such consent, each as specified in the Prospectus, and we are using the Prospectus accordingly."</i></p> <p>(each an <b>Authorised Offeror</b>).</p> <p><i>Offer period:</i> The Issuer's consent referred to above is given for Non-exempt Offers of Notes during [offer period for the issue to be specified here] (the <b>Offer Period</b>).</p> <p><i>Conditions to consent:</i> The conditions to the Issuer's consent [(in addition to the conditions referred to above)] are that such consent (a) is only valid during the Offer Period; (b) only extends to the use of this Prospectus to make Non-exempt Offers of the relevant Tranche of Notes in [specify each Relevant Member State in which the particular Tranche of Notes can be offered]; [and] (c) [specify any other conditions applicable to the Non-exempt Offer of the particular Tranche, as set out in the Final Terms [and (d) ●].</p> <p><b>AN INVESTOR INTENDING TO ACQUIRE OR ACQUIRING ANY NOTES IN A NON-EXEMPT OFFER FROM AN AUTHORISED OFFEROR WILL DO SO, AND OFFERS AND SALES OF SUCH NOTES TO AN INVESTOR BY SUCH AUTHORISED OFFEROR WILL BE MADE, IN ACCORDANCE WITH ANY TERMS AND OTHER ARRANGEMENTS IN PLACE BETWEEN SUCH AUTHORISED OFFEROR AND SUCH INVESTOR INCLUDING AS TO PRICE, ALLOCATIONS AND SETTLEMENT ARRANGEMENTS. THE INVESTOR MUST LOOK TO THE AUTHORISED OFFEROR AT THE TIME OF SUCH OFFER FOR THE PROVISION OF SUCH INFORMATION AND THE AUTHORISED OFFEROR WILL BE RESPONSIBLE FOR SUCH INFORMATION.]</b></p>

**Section B – Issuers and Guarantor**

Element	Title	
---------	-------	--

Element	Title	
B.1	Legal and commercial name of the Issuer	[Banco Espírito Santo, S.A. ("BES ");] [BES Finance Ltd. ("BES Finance"),] ([each an] "Issuer")
B.2	Domicile/ legal form/ legislation/ country of incorporation	BES is a bank with limited liability (sociedade anonima) incorporated and domiciled in Portugal under Portuguese Companies Code and Legal Framework of Credit Institutions and Financial Companies.  BES Finance is an exempted company incorporated with limited liability in the Cayman Islands for an unlimited duration under the laws of the Cayman Islands.
B.4b	Trend information	Not Applicable - There are no known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the relevant Issuer's prospects for its current financial year.
B.5	Description of the Group	BES is the parent company of the Group (as defined below).  BES and its consolidated subsidiaries (together, the "Group") offer a full range of banking and financial services, including deposit taking, lending, asset management, leasing and factoring, investment banking and brokerage services.  BES Finance is a wholly-owned subsidiary of BES.
B.9	Profit forecast or estimate	Not Applicable - No profit forecasts or estimates have been made in the Prospectus.
B.10	Audit report qualifications	Not Applicable - No qualifications are contained in any audit report included in the Prospectus.
B.12	Selected historical key financial information:	
	<b>BES Finance</b>	
	The following tables set out a summary of the financial information for BES Finance for each of the two years ended 31st December 2012 and 31st December 2011. This financial information was extracted without material adjustment from the audited financial statements of BES Finance for the financial years ended 31st December 2012 and 31st December 2011, respectively.	
	<b>Main Indicators (eur million)</b>	<b>2011</b> <b>2012</b>
	Total Assets	4,921      3,192
	Total Liabilities	4,684      2,967

Element	Title		
	Total Equity	238	225
	Net Income	-141	10
	<b>BES</b>		
	The following tables set out a summary of the financial information for the Group on a consolidated basis for each of the two years ended 31st December 2012 and 31st December 2011. This financial information was extracted without material adjustment from the consolidated financial statements of the Group for the financial years ended 31st December 2012 and 31st December 2011, respectively.		
	<b>MAIN INDICATORS</b>	<b>2011</b>	<b>2012</b>
	<b>ACTIVITY (eur million)</b>		
	Total Assets <sup>(1)</sup>	98 589	97 765
	Net Assets	80 237	83 691
	Customer Loans (gross)	51 211	50 399
	Customer Deposits	34 206	34 540
	Total Customer Funds	54 383	56 188
	<b>RESULTS/PROFITABILITY (%)</b>		
	Net Income (M€)	-108,8	96,1
	Return on Equity (ROE)	-0,1%	1,2%
	Return on Assets (ROA)	0,00%	0,12%
	<b>SOLVENCY RATIOS<sup>(2)</sup></b>		
	- CORE TIER I - BoP	9,2%	10,5%
	- CORE TIER I - EBA	-	9,9%
	- TIER I	9,4%	10,4%
	- Total	10,7%	11,3%
	<b>LIQUIDITY (eur million)</b>		
	ECB funds (net) <sup>(3)</sup>	8 677	6 897
	ECB Eligible Assets (collaterals)	15 057	19 402
	Loans to deposits Ratio <sup>(4)</sup>	141%	137%

Element	Title			
	<b>ASSET QUALITY (%)</b>			
	Overdue Loans > 90 days / Gross Loans	2,74%	3,90%	
	Provisions / Overdue Loans > 90 Days	154,5%	136,9%	
	Credit at Risk <sup>(5)</sup> /Total Credit	6,59%	9,44%	
	Credit Provisions/Credit at Risk <sup>(5)</sup>	64,2%	56,6%	
	Credit Provisions Reserve / Customer Loans (Gross)	4,23%	5,34%	
	Cost of Risk <sup>(6)</sup>	1,17%	1,62%	
	<b>PRODUCTIVITY/EFFICIENCY</b>			
	Operating Costs / Total Assets (%)	1,15%	1,18%	
	Assets per Employee (€,000)	9 996	9 832	
	Total Cost to Income (%)	57,9%	44,6%	
	Cost to Income (ex-markets) (%)	57,3%	57,2%	
	The following table sets out a summary of the financial information for the Group on a consolidated basis for the three months ended 31st March 2013. This financial information was extracted without material adjustment from the consolidated financial statements of the Group for the three months ended 31st march 2013.			
	<b>MAIN INDICATORS</b>	<b>31 March, 2013</b>	<b>31 March, 2012</b>	<b>Change</b>
	<b>ACTIVITY (euro million)</b>			
	Total Assets <sup>(1)</sup>	98 659	97 345	1.3%
	Net Assets	84 946	81 265	4.5%
	Gross Loans	51 267	50 984	0.6%
	Customer Deposits	37 417	35 959	4.1%
	Core Capital - BoP	6 510	6 066	7.3%
	Core Capital - EBA	6 089	-	-
	<b>SOLVENCY</b>			
	Solvency Ratio <sup>(2)</sup>			
	- CORE TIER I - BoP	10.5%	9.4%	1.1 pp



Element	Title			
	- CORE TIER I - EBA	9.9%	-	-
	- TIER I	10.4%	9.6%	0.8 pp
	- TOTAL	11.2%	10.8%	0.4 pp
	<b>LIQUIDITY (euro million)</b>			
	ECB funds (net) <sup>(3)</sup>	7877	12 108	- 4 231
	Repoable Asstes	25 435	24 231	1 204
	Loan/deposits ratio <sup>(4)</sup> (%)	129%	135%	-6 pp
	<b>ASSET QUALITY</b>			
	Overdue loans + 90 days / Gross loans	4.34%	2.96%	1.38 pp
	Coverage of Overdue Loans + 90 days	126.8%	150.3%	-23.5 pp
	Credit at Risk	10.10%	7.15%	2.95 pp
	Provisions for Credit / Gross loans	5.51%	4.45%	1.06 pp
	Cost of risk <sup>(5)</sup>	1.46%	1.17%	0.29 pp
	<b>RESULTS &amp; PROFITABILITY</b>			
	Net income (EUR mn)	-62.0	11.6	....
	ROE <sup>(6)</sup>	-3.53%	0.51%	-4.04 pp
	ROA	-0.30%	0.06%	-0.36 pp
	<b>EFFICIENCY</b>			
	Cost to Income	61.8%	51.4%	10.4 pp
	Cost to Income (ex markets)	71.3%	54.3%	17.0 pp
	<b>BRANCH NETWORK</b>			
	Retail Network	769	789	-20
	- Domestic	659	686	-27
	- International	110	103	7
(1)	Net Assets + Asset Management + Other off-balance sheet liabilities + Securitised Credit			
(2)	Accroding to IRB Foundation; preliminary March 2013 data			
(3)	Includes funds from and placements with the ECB System; positive = net borrowing; negative = net lending			

Element	Title	
	(4) Ratio calculated according to BoP definition for the Funding & Capital Plan (5) P&L provisions / Gross Loans (6) Annualised Net Income	
	<p><b><i>Statements of no significant change</i></b></p> <p>There has been no significant change in the financial or trading position of BES or the Group since 31st March 2013, the last day of the financial period in respect of which the most recent financial statements of BES and the Group have been prepared.</p> <p>There has been no significant change in the financial or trading position of BES Finance since 31st December 2012, the last day of the financial period in respect of which the most recent financial statements of BES Finance have been prepared.</p> <p><b><i>Statements of no material adverse change</i></b></p> <p>There has been no material adverse change in the prospects of BES or the Group since 31st December 2012, the last day of the financial period in respect of which the most recently audited financial statements of BES and the Group have been prepared.</p> <p>There has been no material adverse change in the prospects of BES Finance since 31st December 2012, the last day of the financial period in respect of which the most recently audited financial statements of BES Finance have been prepared.</p>	
<b>B.13</b>	<b>Events impacting the Issuer's solvency</b>	Not Applicable - There are no recent events particular to the relevant Issuer which are to a material extent relevant to the evaluation of the relevant Issuer's solvency.
<b>B.14</b>	<b>Dependence upon other group entities</b>	See Element B.5. BES is the parent company of the Group and the holding company of all the companies in the Group. BES Finance is a wholly-owned subsidiary of BES. Through its shareholding, BES directly controls BES Finance. There are no other measures in place concerning such control.
<b>B.15</b>	<b>Principal activities</b>	<p>The Group's products and services include deposits, loans to individual and corporate customers, asset management, brokerage and custodian services, investment banking services and the distribution of life and non-life insurance products.</p> <p>The Group reports on the basis of the following operational segments:</p> <ul style="list-style-type: none"> <li>• Domestic Commercial Banking – providing all banking services to Portuguese private and corporate customers through branch network, corporate centres and other channels;</li> <li>• International Commercial Banking – providing banking</li> </ul>

Element	Title	
		<p>services to private and corporate customers through retail units located abroad;</p> <ul style="list-style-type: none"> <li>• Investment Banking – providing consulting services, brokerage and other investment banking services to corporate and institutional customers</li> <li>• Asset Management – providing asset management services covering mutual funds, real estate funds and pension funds and providing discretionary and portfolio management services;</li> <li>• Life Insurance – providing investment insurance and retirement plans to BES customers; and</li> <li>• Capital Markets and Strategic Investments – overseeing global financial management activity of the Group including raising and placing funds in the financial markets, investment and risk management of credit, interest rate, equities etc. and activities with non-resident institutional investors.</li> </ul> <p><b>BES Finance</b></p> <p>Pursuant to article 3 of its articles of association, the objects of BES Finance are, <i>inter alia</i>, the following:</p> <ul style="list-style-type: none"> <li>• carrying on the business of a finance and investment company;</li> <li>• receiving monies on deposit, receiving loans and borrowing or raising money in any currency, with or without security and in particular, but without limitation, by the issue of notes or bonds;</li> <li>• advancing, depositing or lending money, securities and/or property;</li> <li>• buying, selling, acting as broker and dealing in foreign exchange, bullion, specie, precious metals and minerals, and all other commodities;</li> <li>• entering into currency and/or interest rate swaps and any other type of swap agreements;</li> <li>• acting as promoters and entrepreneurs:</li> <li>• exercising and enforcing all rights and powers conferred by or incidental to the ownership of any shares, stock, obligations or other securities;</li> </ul>

Element	Title	
		<ul style="list-style-type: none"> <li>• purchasing or otherwise acquiring, selling, exchanging, surrendering, leasing, mortgaging, charging, converting, turning to account, disposing of and dealing with real and personal property and rights of all kinds;</li> <li>• standing surety for or guaranteeing, supporting or securing the performance of all or any of the obligations of any person, firm or company whether or not related or affiliated to it in any manner; and</li> <li>• engaging in or carrying on any other lawful trade, business or enterprise.</li> </ul>
<b>B.16</b>	<b>Controlling shareholders</b>	<p>The sole direct shareholder of BES Finance is BES. BES is, directly or indirectly, also the holding company of all the companies in the Group.</p> <p>BESPAR, which holds the interests of Espirito Santo Financial Group, S.A. and an indirect stake in Crédit Agricole, owned 35.3 per cent. of BES as of 31st December, 2012. Crédit Agricole, has a direct holding of 10.81 per cent. in BES.</p>
<b>B.17</b>	<b>Credit ratings</b>	<p>There have been no credit ratings assigned to BES Finance.</p> <p>BES has been rated BB- by Standard &amp; Poor's Credit Market Services Europe Limited ("<b>S&amp;P</b>"), Ba3 by Moody's Investors Service España, S.A. ("<b>Moody's</b>") and BBB (low) by DBRS, Inc. ("<b>DBRS</b>").</p> <p>Each of Moody's, S&amp;P and DBRS is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).</p> <p>[The Notes to be issued [have been/are expected to be] rated ● by ●.]</p> <p>A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p> <p>[Not Applicable - No ratings have been assigned to the Issuer or its debt securities at the request of or with the co-operation of the Issuer in the rating process.]</p>
<b>B.18</b>	<b>Description of the Guarantee</b>	<p>The payment of the principal of, and interest on, the Notes issued by BES Finance will be unconditionally and irrevocably guaranteed by Banco Espirito Santo, S.A., acting through its London branch (the "<b>Guarantor</b>"). The obligations of the Guarantor under its guarantee will:</p>

Element	Title	
		<ul style="list-style-type: none"> <li>in the case of Senior Notes, constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor and will rank <i>pari passu</i> with all present and future unsecured (subject to the provisions of the Guarantor's negative pledge) and unsubordinated obligations (including those arising under deposits received in its banking business) of the Guarantor, except for obligations given priority by law;</li> <li>in the case of Subordinated Notes, constitute direct, unsecured obligations of the Guarantor but, in the event of dissolution or liquidation of the Guarantor, subordinated in right of payment to the claims of depositors and other unsecured creditors of the Guarantor (other than creditors in respect of indebtedness which is subordinated to at least the same extent as the obligations of the Guarantor under its guarantee in respect of the Subordinated Notes).</li> </ul>
<b>B.19</b>	<b>Information about the Guarantor</b>	<p>BES may be an Issuer or the Guarantor of Notes under the Programme.</p> <p>Information relating to BES is set out in this Section B.</p>

### Section C – Securities

Element	Title	
<b>C.1</b>	<b>Description of Notes/ISIN</b>	<p>[The Notes described in this section are debt securities with a denomination of less than €100,000 (or its equivalent in any other currency).]</p> <p>The Notes are [£/€/U.S.\$/CHF/JPY/●] ● [● per cent./Floating Rate/Zero Coupon/[Reset]] Notes due ●.</p> <p>The International Securities Identification Number (ISIN) is ●.</p> <p>[The Common Code is ●.]</p>
<b>C.2</b>	<b>Currency</b>	The currency of this Series of Notes is [Pounds Sterling (£)/Euro (€)/U.S. dollars (U.S.\$)/Swiss Francs (CHF)/Japanese Yen (JPY)/●].
<b>C.5</b>	<b>Restrictions on transferability</b>	Not Applicable - There are no restrictions on free transferability of the Notes
<b>C.8</b>	<b>Rights attached to the Notes,</b>	<i>Status and Subordination</i>

Element	Title	
	<p><b>including ranking and limitations on those rights</b></p>	<p>Notes are issued on a [senior]/[subordinated] basis referred to as [the Senior Notes]/[the Subordinated Notes].</p> <p>[Senior Notes constitute direct, unconditional, unsubordinated and (subject to the provisions of the Issuer's negative pledge below) unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding.]</p> <p>[Payments in respect of any Subordinated Notes issued on a subordinated basis constitute direct, unsecured and subordinated obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) at least <i>pari passu</i> with all other subordinated obligations of the Issuer. Without prejudice to the foregoing, the Subordinated Notes will, in the event of a distribution of the assets in the dissolution or liquidation of the Issuer, rank senior to the share capital of the Issuer.]</p> <p><b><i>Issuer's negative pledge</i></b></p> <p>[The terms of the Senior Notes will contain a negative pledge provision to the effect that, so long as any Senior Note remains outstanding, [neither] the Issuer [nor the Guarantor (where the Issuer is BES Finance)] will [not], create or permit to subsist any mortgage, charge, pledge, lien or other encumbrance or security interest upon the whole or any part of its undertakings or assets, to secure any borrowings of the Issuer having an original maturity of more than one year represented by bonds, notes, debentures or other securities which are, subject to certain specified exceptions, either listed or traded on any non-Portuguese domestic stock exchange or in any securities market or are initially offered outside the Portuguese Republic in more than a specified percentage, or any guarantee or indemnity given in respect thereof, without at the same time or promptly securing the Notes equally and rateably therewith or providing other security for the Notes as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the holders of Senior Notes or as shall be approved by an extraordinary resolution of the holders of Senior Notes.]</p> <p>[The Subordinated Notes do not contain a negative pledge.]</p> <p><b><i>Events of default</i></b></p>

Element	Title	
		<p>[The terms of the Senior Notes will contain, amongst others, the following events of default:</p> <ul style="list-style-type: none"> <li>(a) default in payment of any principal or interest due in respect of the Senior Notes, continuing for a specified period of time;</li> <li>(b) non-performance or non-observance by the Issuer [or the Guarantor (if the Issuer is BES Finance)] of any of its other obligations under the conditions of the Senior Notes or the Trust Deed, in certain cases continuing for a specified period of time;</li> <li>(c) acceleration by reason of default of the repayment of any indebtedness or default in any payment of any indebtedness or in the honouring of any guarantee or indemnity in respect of any indebtedness by the Issuer [or the Guarantor (if the Issuer is BES Finance)], in any case so long as any such indebtedness exceeds the specified threshold;</li> <li>(d) order made by any competent court or resolution passed for winding up or dissolution of the Issuer [or the Guarantor (where the Issuer is BES Finance)] (other than for an amalgamation, merger or reconstruction approved by the Trustee or an extraordinary resolution of the holders of Interbolsa Notes);</li> <li>(e) save for the purposes of reorganisation approved by the Trustee or an extraordinary resolution of the holders of Interbolsa Notes, the Issuer [or the Guarantor (where the Issuer is BES Finance)] cease to carry on the whole or substantially the whole of its business;</li> <li>(f) events relating to the winding-up or dissolution of the Issuer [or the Guarantor (as the case may be)];</li> <li>(g) [BES Finance ceases to be a wholly owned and controlled subsidiary of BES (except where BES Finance has been substituted as the principal debtor)]; [and</li> <li>(h) (where the Issuer is BES Finance) the Guarantee ceases to be in full force and effect].]</li> </ul> <p>[The terms of the Subordinated Notes will contain, amongst others, the following events of default:</p> <ul style="list-style-type: none"> <li>(a) default in payment of any principal or interest due in</li> </ul>

Element	Title	
		<p>respect of the Subordinated Notes, continuing for a specified period of time; and</p> <p>(b) order made by any competent court or resolution passed for winding up or dissolution of the Issuer [or the Guarantor (where the Issuer is BES Finance)] (other than for an amalgamation, merger or reconstruction approved by the Trustee or an extraordinary resolution of the holders of Subordinated Notes).]</p> <p><b><i>Taxation</i></b></p> <p>All payments in respect of Notes will be made without deduction for or on account of withholding taxes imposed by [the Cayman Islands (in the case of payments by BES Finance)]/[Portugal (in the case of payments by BES)] or any authority thereof or therein having power to tax, unless required by law. In the event that any such deduction is made, the Issuer [or, as the case may be, the Guarantor] will, save in certain limited circumstances, be required to pay additional amounts to cover the amounts so deducted.</p> <p>All payments in respect of the Notes will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “<b>Code</b>”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.</p> <p><b><i>Meetings</i></b></p> <p>The terms of the Notes will contain provisions for calling meetings of holders of such Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.</p> <p><b><i>Governing law</i></b></p> <p>Bearer Notes (and any non-contractual obligations arising out of or in connection with it) are governed by English law, except that the conditions relating to (i) the status of the Subordinated Notes where BES acts in its capacity as issuer or guarantor and (ii) the status of the guarantee in relation to the Subordinated Notes, shall be governed by</p>



Element	Title	
		<p>Portuguese law.</p> <p>Notes held through Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. (“<b>Interbolsa Notes</b>”) are governed by Portuguese law.</p>
<p><b>C.9</b></p>	<p><b>Interest/Redemption including:</b></p> <p><b>the nominal interest rate</b></p> <p><b>the date from which interest becomes payable and the due dates for interest</b></p> <p><b>where the rate is not fixed, description of the underlying on which it is based</b></p>	<p><i>Interest</i></p> <p>[The Notes bear interest [from their date of issue/from ●] at the fixed rate of ● per cent. per annum. The yield of the Notes is ● per cent. Interest will be paid [annually/semi-annually/quarterly/monthly] in arrear on ● [and ●] in each [year/month] [, subject to adjustment for non-business days]. The first interest payment will be made on ●.]</p> <p>[The Notes bear interest [from their date of issue/from ●] at floating rates calculated by reference to ● month [[<i>currency</i>] LIBOR/EURIBOR [plus/minus] a margin of ● per cent. Interest will be paid [annually/semi-annually/quarterly/monthly] in arrear on ● [and ●] in each [year/month], subject to adjustment for non-business days. The first interest payment will be made on the interest payment date falling in ●.]</p> <p>[The Notes bear interest (a) [from their date of issue] to the first Reset Date occurring thereafter at an initial fixed rate of ● per cent. per annum; and (b) in respect of each successive ●-year period thereafter, at a rate per annum equal to the sum of ● and a margin of ● per cent., in each case, payable [annually/semi-annually/quarterly/monthly] in arrear on ● [and ●] in each [year/month].]</p> <p>[The Notes do not bear any interest [and will be offered and sold at a discount to their nominal amount].]</p>
	<p><b>Redemption including maturity date and arrangements for the amortisation of the loan, including the repayment procedures</b></p>	<p>Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on ● at [par/● per cent. of their nominal amount].</p> <p>The Notes may be redeemed early for tax reasons at ● per cent. of the nominal amount of the Notes. [The Notes may also be redeemed before the maturity date at the option of [the Issuer ([either in whole or in part] / [in whole only]) [and/or] [the holders of the Notes] at [100 per cent. of the nominal amount of the Notes / ●] on ● [and ●].]</p>
	<p><b>Indication of yield</b></p>	<p>[The yield on the Notes is ● per cent. per annum. The yield is calculated at the issue date of the Notes on the basis of</p>

Element	Title	
		the issue price of the Notes of ● per cent. It is not an indication of future yield.]
	<b>Representative of holders</b>	<p>The Issuer has appointed The Bank of New York Mellon (the <b>Trustee</b>) to act as trustee for the holders of Notes (other than Interbolsa Notes). The trustee may, without the consent of any holders and without regard to the interests of particular holders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of any holders that an event of default or potential event of default shall not be treated as such or (iii) the substitution of another company as principal debtor under the Notes in place of the relevant Issuer.</p> <p>The Issuer has appointed Vieira de Almeida &amp; Associados - Sociedade de Advogados R.L., as common representative of the holders of Interbolsa Notes (<i>representante comum dos obrigacionistas</i>).</p> <p>Please also refer to Element C.8</p>
<b>C.10</b>	<b>Derivative component in the interest payments</b>	See Element C.9. Not applicable – There is no derivative component in the interest payments.
<b>C.11</b>	<b>Listing and Admission to trading in respect of Notes with a denomination of less than EUR100,000 (or its equivalent in other currencies)</b>	[Application [has been][is expected to be] made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of the [London/Luxembourg/● Stock Exchange.] [The Notes are not intended to be admitted to trading on any market.]

## Section D – Risks

Element	Title	
<b>D.2</b>	<b>Key risks regarding the Issuer and the Guarantor</b>	In purchasing Notes, investors assume the risk that the Issuer [and the Guarantor] may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer [and the Guarantor] becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer and [the Guarantor] may not be aware of all relevant factors and certain factors which [it/they] currently deem[s] not to be material may become material

Element	Title	
		<p>as a result of the occurrence of events outside the Issuer's [and the Guarantor's] control. The Issuer [and the Guarantor] [has/have] identified a number of factors which could materially adversely affect [its/their] businesses and ability to make payments due under the Notes. These factors include:</p> <ul style="list-style-type: none"> <li>• [the Group's performance, results of operations and financial conditions are dependent on the strength of the Portuguese economy and, to a lesser extent, that of the European Union and that of those countries outside of the EU where the Group operates. The Group's businesses are being and may continue to be negatively affected by current local and global economic conditions and adverse perceptions of those conditions and future economic prospects;</li> <li>• conditions in the global financial markets and the macroeconomic context of the countries in which the Group operates generally influence the performance of the Group. Intense competition in all areas of the Group's operation can also have an adverse effect on the relevant Issuer's operating results;</li> <li>• the Group's international operations are exposed to the risk of adverse political, governmental or economic developments in the countries in which it operates;</li> <li>• the Group is subject to the risk of interest rate fluctuations, risk of changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties, 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 commodity prices, inability to anticipate and provide for unforeseen decreases or changes in funding sources and risk of losses or of a negative impact upon its relationship with other stakeholders resulting from inadequate or negligent application of internal procedures, or from information systems, non-compliance with regulations in force or legal action, all of which may from time to time impact negatively upon the Group's operating results;</li> <li>• although BES has implemented risk management policies for each of the risks that it is exposed to, such policies may not be fully effective;</li> <li>• because of the Group's dependence on sophisticated</li> </ul>

Element	Title	
		<p>IT systems, which are vulnerable to a number of problems and require frequent updates, any significant interruption to the Group's IT systems can have an adverse effect on the activities, the results and the financial condition of the Group;</p> <ul style="list-style-type: none"> <li>• the success of the Group depends largely on its ability to maintain its client portfolio and provide it with a diversified range of competitive and high quality products and services and the potential inability of BES to do so could have an adverse effect on the Group's financial situation and results;</li> <li>• the Group operates in a highly regulated industry and the regulatory laws governing the activity of the Group may change at any time in ways which may have an adverse effect on its business; and</li> <li>• the major shareholders of BES (Espírito Santo Financial Group S.A. and Crédit Agricole S.A.) hold a majority of the voting rights of BES and, as such, have the ability to exercise significant influence over or determine the outcome of certain shareholder actions.]</li> </ul> <p>[BES Finance is a funding vehicle of the Group. Therefore, any failure by BES to pay amounts outstanding under any intra-group loans made by BES Finance to BES would affect BES Finance's ability to meet its payment obligations under the issued Notes.]</p>
<b>D.3</b>	<b>Key risks regarding the Notes</b>	<p>There are also risks associated with the Notes. These include a range of market risks (including that there may be no or only a limited secondary market in the Notes and therefore, holders of Notes may not be able to sell their Notes easily or at prices that will provide them with a yield comparable with similar investments that have a developed secondary market, that an optional redemption feature is likely to limit the secondary market value of the Notes such that the secondary market value of such Notes will not rise substantially above the price at which they can be redeemed, that the relevant Issuer's ability to convert the interest rate on Notes from a fixed rate to a floating rate (or vice versa) will affect the secondary market value of such Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing and to a rate which is lower than other comparable fixed or floating rate notes (as applicable), that the secondary market value of Notes issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest</p>

Element	Title	
		<p>rates than do prices for conventional interest-bearing Notes, that the value of an investor's investment may be adversely affected by exchange rate movements where the Notes are not denominated in the investor's own currency, that any credit rating assigned to the Notes may not adequately reflect all the risks associated with an investment in the Notes and that changes in interest rates will affect the value of Notes which bear interest at a fixed rate), the relevant Issuer's (and, if applicable, the Guarantor's) obligations under Subordinated Notes are subordinated and will rank junior in priority to the claims of Senior Creditors. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that a holder of a Subordinated Note will lose some or all of their investment should the relevant Issuer and, if applicable, the Guarantor becomes insolvent, the fact that the conditions of the Notes may be modified without the consent of the holder in certain circumstances, that the holder may not receive payment of the full amounts due in respect of the Notes as a result of amounts being withheld by the relevant Issuer in order to comply with applicable law and that investors are exposed to the risk of changes in law or regulation affecting the value of Notes held by them.</p> <p><b>“Senior Creditors”</b> means creditors of the relevant Issuer or, as the case may be, the Guarantor who (x) are depositors or other unsubordinated creditors of the relevant Issuer or, as the case may be, the Guarantor or (y) are subordinated creditors of the relevant Issuer or, as the case may be, the Guarantor other than those whose claims rank <i>pari passu</i> with or junior to the claims of the holders of Subordinated Notes or (in respect of the Guarantor) persons entitled to claim under the Guarantee in respect of such Notes.</p> <p>Interbolsa Notes will be subject to Interbolsa procedures and Portuguese law with respect to the form and transfer of Interbolsa Notes, payments on Interbolsa Notes and Portuguese tax rules. Holders of Interbolsa Notes must ensure that they comply with all procedures to ensure that they receive the correct tax treatment in relation to their Interbolsa Notes.</p>

**Section E – Offer**

Element	Title	
E.2b	Use of proceeds	[The net proceeds from the issue of Notes will be applied by the Issuer for general financing requirements in the Issuer's

Element	Title	
		general corporate purposes, which include making a profit [and[ ]].
E.3	<b>Terms and conditions of the offer</b>	<p>[This issue of Notes is being offered in a Non-Exempt Offer in [<i>specify particular country/ies</i>].</p> <p>The issue price of the Notes is ● per cent. of their nominal amount.</p> <hr/> <p>Offer Price: [Not Applicable/[ ]]</p> <p>Conditions to which the offer is subject: [Not Applicable/[ ]]</p> <p>Description of the application process: [Not Applicable/[ ]]</p> <p>Details of the minimum and/or maximum amount of application (whether in numbers of securities or aggregate amount to invest): [Not Applicable/[ ]]</p> <p>Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants: [Not Applicable/[ ]]</p> <p>Details of the method and time limits for paying up and delivering the Notes: [Not Applicable/[ ]]</p> <p>Full description of the manner and date on which results of the offer are to be made to public: [Not Applicable/[ ]]</p> <p>Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: [Not Applicable/[ ]]</p> <p>Process for notification to applicants of the amount of Notes allotted and indication whether dealing may begin before notification is made: [Not Applicable/[ ]]</p> <p>Details of any tranche(s) reserved for specific country: [Not Applicable/[ ]]</p> <p>Amount of any expenses and [Not Applicable/[ ]]</p>

Element	Title	
		<p>taxes specifically charged to the subscriber or purchaser:</p> <p>Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: [Not Applicable/[ ]]</p> <p>Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place [None/[ ]]</p>
<b>E.4</b>	<b>Interest of natural and legal persons involved in the issue/offer</b>	<p>[The Dealers have been paid fees in relation to the issue of Notes under the Programme.] [Any such Dealer and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and [its/their] affiliates in the ordinary course of business.]</p> <p>[Other than as mentioned above,[ and save for ●,] so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer, including conflicting interests.]</p>
<b>E.7</b>	<b>Expenses charged to the investor by the Issuer or an Offeror</b>	<p>[Not Applicable – No expenses will be charged to investors by the relevant Issuer.]</p> <p>[No expenses are being charged to an investor by the Issuer. For this specific issue, however, expenses may be charged by an Authorised Offeror (as defined above) in the range between ● per cent. and ● per cent. of the nominal amount of the Notes to be purchased by the relevant investor.]</p>

## **RISK FACTORS**

*In purchasing Notes, investors assume the risk that the Bank and/or BES Finance may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Bank and/or BES Finance becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Bank and/or BES Finance may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Bank's and/or BES Finance's control. The Bank and/or BES Finance has identified in this Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes. In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

### **1. Factors that may affect BES' ability to fulfil its obligations under Notes to be issued by BES under the Programme or guaranteed by BES under the Deed of Guarantee**

#### **1.1 *Economic Environment***

As a financial group whose core business is banking (taking deposits and using them to grant loans) in Portugal, the state of the Portuguese economy affects the performance of the BES Group (BES together with its consolidated subsidiaries). For the year ended 31st December, 2012, 71 per cent. of the BES Group's net assets and 75 per cent. of operating income derived from its activities in Portugal (as at and for the year ended 31st December, 2011: 74 per cent. and 51 per cent., respectively). Consequently, the BES Group is particularly exposed to the macroeconomic conditions which affect growth, particularly in the Portuguese market.

Portugal's gross domestic product ("GDP") stagnated in 2008, experienced a contraction of 2.9 per cent. in 2009 and grew 1.9 per cent. in 2010. In 2010, the Portuguese public deficit represented 9.8 per cent. of Portugal's GDP and national public debt amounted to 94 per cent. of GDP in 2010. Unemployment grew from 9.5 per cent. in 2009 to 10.8 per cent. at the end of 2010.

As a result of deteriorating economic conditions, the Portuguese government requested financial assistance from the Member States of the European Union (the "EU") through the European Financial Stability Facility (the "EFSF") and the International Monetary Fund (the "IMF") in April 2011. On 5th May, 2011, the Portuguese government, with the support of the main Portuguese political parties, agreed to an economic and financial stabilisation programme jointly provided by the IMF and the EU (the "Stabilisation Programme"). The Stabilisation Programme is expected to provide significant financial support of €78 billion over a three-year period in the form of a co-operative package of IMF and EU funding, including a €26 billion three-year loan under the IMF's extended fund facility, with the remaining €52 billion in funding being provided by the EU at an interest rate expected to be between 3.5 per cent. and 4 per cent. On 10th May, 2011, the European Commission approved the Stabilisation Programme and, on 16th May, 2011, EU finance ministers approved the Stabilisation Programme. The availability of the funding is dependent on the implementation of budgetary and structural measures by the Portuguese government, which will be subject to quarterly reviews by the EU and the IMF for the duration of the Stabilisation Programme.

As part of the Stabilisation Programme, the Portuguese government has committed to implement measures to decrease expenses and increase revenues that, subject to certain assumptions, were initially intended to reduce the general government deficit to a level of approximately 5.9 per cent. of



GDP in 2011, to approximately 5.4 per cent. of GDP in 2012 and approximately 3.0 per cent. of GDP in 2013.

In addition, the Stabilisation Programme is intended to put the Portuguese public debt to GDP ratio on a downward path from 2013 and maintain fiscal consolidation over the medium-term up to a balanced budgetary position, principally by containing growth in expenditure and by supporting competitiveness through a budget-neutral adjustment to the tax structure. The Stabilisation Programme contains structural measures and policy guidelines designed to boost the country's competitiveness and improve Portugal's growth rates in the medium term with a view to repaying the country's large debt burden. Specifically, the Stabilisation Programme includes, among others, measures intended to:

- Increase revenues, in part through the increase of tax rates for goods and services;
- Improve the flexibility of the labour market;
- Reduce the level of pensions for certain government employees; and
- Improve the competitiveness of the Portuguese economy.

The implementation of the required measures is subject to the continued commitment of the Portuguese government. Changes in the government or government policy, including as a result of rescue plans elsewhere in Europe, could have an impact on the timing and scope of the structural reforms that Portugal has to implement in order to meet the conditions of the Stabilisation Programme. Furthermore, implementation of these structural reforms may meet considerable opposition from labour unions and the general public in Portugal, which could put pressure on the Portuguese government's ability to meet the requirements of such measures in the future. In addition, European politics (including national elections in EU Member States) may affect the availability of funding for Portugal and other European countries.

The outlook for the Portuguese economy is conditioned by the implementation of the Stabilisation Programme. The need to reduce the public deficit in 2012 translated into the adoption of a very restrictive fiscal policy, with negative impacts on economic activity in the near term. At the same time, the private sector - corporate, financial and households - continued its deleveraging process. Under these circumstances, GDP contracted by 3.2 per cent. in 2012, after having contracted 1.6 per cent. in 2011 (source: Portuguese National Statistical Institute). This will be mainly associated with a significant contraction in domestic demand, of around 12 per cent. in real and accumulated terms in these two years (source: Portuguese National Statistical Institute). Albeit slowing down, exports have posted relatively strong growth while imports have fallen significantly, in line with domestic demand. The Portuguese economy is expected to contract by 2.3 per cent. in 2013, mainly due to the contraction of domestic demand (source: Portuguese Ministry of Finance).

Factors such as higher unemployment, lower disposable incomes, and a shift in consumption from higher to lower taxed products and services have had an impact on revenue collection. The fiscal deficit reached 4.9 per cent. of GDP in 2012. The statistical treatment of specific transactions, such as the airport concession (ANA), resulted however in a higher headline deficit of 7.4 per cent. of GDP. While the government is committed to keep a spending path broadly consistent with structural fiscal adjustment, less growth and higher unemployment will reduce revenues and increase social benefits. To allow the operation of automatic fiscal stabilizers, in March 2013 the Portuguese government requested the International Monetary Fund, the European Commission and the European Central Bank (the "Troika") to revise the deficit targets from 4.5 per cent. to 5.5 per cent. of GDP in 2013, and from 2.5 per cent. to 4 per cent. of GDP in 2014. The 2015 deficit target, set at 2.5 per cent. of GDP, will be below the 3 per cent. deficit threshold of the Stability and Growth Pact.

The new deficit targets are expected to be underpinned by a permanent, targeted, spending-based consolidation effort. The Portuguese government undertook a thorough and transparent review of public expenditures to identify potential savings necessary to meet the deficit targets in the period. These measures aim at rationalizing and modernizing public administration, improving the sustainability of the pension system, and achieving additional cost savings across ministries. Public sector reforms will continue to strengthen financial management, fight tax evasion, restructure state enterprises, and reduce costs of public-private partnerships.

However, there are various factors which may hinder the achievement of the targets. The target for 2013 is underpinned by a range of measures in the 2013 budget amounting to more than 3 per cent. of GDP. These include, in relation to expenditure, further cuts in compensations of employees; a reduction in social benefits and subsidies including for the health care sector; curtailing intermediate consumption; and cuts in investment. In relation to revenue, the budget foresees a restructuring of the personal income tax that reduces the number of bands, increases in the average tax rate and curbs tax benefits; a surcharge on taxable income above the minimum wage; a solidarity surcharge on the highest incomes; a limit on the deductibility of interest costs from corporate taxes; and a reduction in the threshold for the highest surcharge on profits. Overall about 80 per cent. of the fiscal adjustment in 2013 will come from the revenue side. The Constitutional Court's rejection of some of the measures included in the 2013 budget has forced the adoption of alternative fiscal consolidation measures for this year (namely expenditure cuts). If the Constitutional Court rejects some of the measures to be included in the 2014 Budget, the need to adopt alternative measures to compensate that revenue shortfall could arise.

Meanwhile, the seventh assessment of the adjustment programme by the Troika in March 2013 was favourable, allowing the release of a further tranche of external assistance of €2 billion in total. Portugal has already received €64.5 billion out of a total of €78 billion of official assistance under the Stabilisation Programme, as reported by the IMF.

The principal risks to the Portuguese domestic outlook stem from the possibility of further deterioration in macroeconomic conditions outside of Portugal, particularly in Europe in light of the continuing recession in the Euro Zone. Although slowing down, Portuguese exports have maintained some strength and an increasing proportion of exports to emerging markets in Africa, Latin America and Asia are growing in significance. However, a worse than expected performance in the Euro Zone may well lead to a steeper fall in Portuguese GDP in 2013. The stabilisation of the financial situation of the Euro Zone is therefore critical to any stabilisation in Portugal. The ongoing deleveraging process in the Portuguese economy has already led to a decrease in the external deficit of 9 per cent. of GDP at the end of 2010 to 5.1 per cent. at the end of 2011. This path continued in 2012, with the current and capital balance reaching a surplus of 0.4 per cent. of GDP at the end of 2012 (source: Portuguese National statistical Institute).

The continuously weak macroeconomic conditions in Portugal are materially adversely affecting the liquidity, business and/or financial conditions of the BES Group's borrowers, which are in turn further increasing the BES Group's non-performing loan ratios, impairing its loan and other financial assets and resulting in decreased demand for borrowings in general.

Even if the Stabilisation Programme is successfully implemented, it is uncertain whether it will achieve the set targets. A failure of these measures may exacerbate current negative macroeconomic conditions in Portugal and may prolong the recession. In such a case, the market reaction is likely to be negative and business activity may deteriorate, which may have a material adverse effect on the BES Group's business, financial condition and results of operations.

Furthermore, the implementation of the required measures could have a material adverse effect on the Portuguese economy, at least in the short term, due to its recessionary nature. It is also uncertain

whether the success of the Stabilisation Programme will enable the Portuguese economy to grow sufficiently to ease Portugal's financial constraints. Any further significant deterioration of global economic conditions, including the credit profile of other EU countries, or the creditworthiness of Portuguese or international banks, or changes to the Euro Zone, may give rise to concerns regarding the ability of Portugal to meet its funding needs. In particular, during the second half of 2011 and first half of 2012 as the EU worked to develop a further assistance programme for Greece, the risk of sovereign default intensified and this raised concerns about the contagion effect such a Greek default would have on other economies. The focus of such contagion was largely directed at Portugal, as well as Ireland, Spain and Italy.

In addition, even if the Stabilisation Programme is enacted and implemented in full, concerns relating to Portuguese public finances and negative financial contagion from events outside Portugal may continue to affect the liquidity and profitability of financial institutions in Portugal, resulting in, among other things, lower market values for Portuguese government debt; limited liquidity in the Portuguese banking system and reliance on external funding; increased competition for, and thus cost of, customer deposits; limited credit extension to customers; and a deterioration of credit quality. A failure to successfully implement the provisions of the Stabilisation Programme and to attain its fiscal targets may lead to the termination of financial support from the IMF and the EU, which would create the conditions for a credit event with respect to Portugal's government debt.

The adverse macroeconomic conditions in Portugal have significantly affected, and are expected to continue to adversely affect, the behaviour and the financial situation of the BES Group's clients, and consequently, the supply and demand of the products and services that the BES Group has to offer. In particular, limited growth in customer loans is expected in the coming years, which will make it difficult for the BES Group to generate enough interest income to maintain its net interest margin. Furthermore, the continuing growth of unemployment, the reduction of the profitability of enterprises and an increase in company and personal insolvencies have had, and are expected to continue to have, a negative influence on BES' clients' ability to pay back loans, and, consequently, could cause an increase in the ratio of overdue loans, which might exceed the standard historic average, reflecting a deterioration of the quality of assets of the BES Group.

## **1.2 *Global economic conditions and the European Sovereign Debt Crisis***

The BES Group's businesses and performance are being and may continue to be negatively affected by current local and global economic conditions and adverse perceptions of those conditions and future economic prospects.

In particular, during 2011, the heightened perceived risk of sovereign default relating to certain EU Member States, in particular Greece, had a negative impact on global financial markets. Against a background of increasing unease over the macro/financial implications of sizeable fiscal imbalances among several Euro sovereign issuers, including Portugal, investors have reduced their investment in these countries and the default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the BES Group operates. Although the 3-year liquidity operations conducted by the ECB in December 2011 and February 2012 and the presentation of the programme of purchase of public debt securities in the secondary market ("Outright Monetary Transactions") by the European Central Bank in September 2012 contributed to a stabilisation of the financial markets, levels of uncertainty remain relatively high.

The outlook for the global economy over the near to medium term remains challenging, particularly in Portugal and other European countries, while a moderate recovery in the United States and Japan is expected throughout the year. Some negative factors should continue to hold back economic growth during 2013, namely: (i) the persistence of fiscal problems in the United States, with the need

to raise the debt ceiling and significantly cut expenditure; (ii) the uncertainty associated with the Euro Zone debt crisis, and particularly to the performance of the peripheral economies, still in recession in 2013; (iii) the deleveraging, i.e., the reduction of indebtedness in the public and private sectors in various economies, leading, among others, to the adoption and implementation of restrictive fiscal policies, with negative impacts in the short term; (iv) an uncertain political environment, dependent on decisions about the construction of the banking and fiscal union in the Euro Zone, fears of austerity-driven political and social erosion; and (v) the heavy weight of public and private debt in the main advanced economies, something which, historically, will take years to adjust and should tend to put significant restrictions on growth. As a result of these factors, the main economies should still report relatively low or moderate GDP growth rates in 2013, while the Euro Zone is expected to post a marginally negative growth rate, mainly due to the contraction of activity in the first months of the year.

Continued reduction in investment flows may further restrict economic recovery. Such challenging economic and market conditions exert downward pressure on asset prices and on credit availability, and upward pressure on funding costs, and may continue to impact asset recovery rates and the credit quality of the BES Group's businesses, customers and counterparties, including sovereigns. In particular, the BES Group has significant exposure to customers and counterparties in the European Union (particularly in Portugal) and would be affected by any restructuring of the terms, principal, interest or maturity of their borrowings.

Any significant deterioration in the global economy, including in the credit profiles of other EU Member States or in the solvency of Portuguese or international banks, or certain other economic changes in the Euro Zone could:

- Negatively affect the capacity of the Republic of Portugal to satisfy its financing needs;
- Have a direct negative impact on the value of BES' portfolio of Portuguese public debt securities (as of 31st December, 2012, the Bank held approximately €3.2 billion in Portuguese public debt). In relation to the sovereign debt of other EU periphery economies, the BES Group held €605 million of Spanish public debt, €25 million of Irish public debt, €28 million on Italian public debt and €3 million of Greek public debt. 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;
- Have a significant adverse effect on the Bank's capacity to raise and/or generate capital and comply with minimum regulatory capital requirements;
- Significantly restrict the Bank's ability to obtain liquidity; and
- Negatively affect the Bank's capital position, its operational results and its financial condition.

As a consequence of the systemic risk resulting from the sovereign debt crisis in the Euro area, the EU summit of 27th October, 2011 decided that banks subject to the European Banking Authority's ("EBA") stress tests should reinforce their capital ratios in order to achieve, by 30th June, 2012, a Core Tier 1 ratio of 9 per cent. after a mark-to-market valuation of sovereign debt exposures held by those institutions as of 30th September, 2011. BES' total capital needs, applying EBA's methodology, as of 30th September, 2011, were €810 million, of which €121 million resulted from the mark-to-market valuation of the sovereign debt exposure. Notwithstanding the fact that the EBA stress tests are performed at the ESFG Group level (a major shareholder of BES and a company for

which BES is a significant investment), BES has used the same methodology to calculate its total capital needs, as presented above.

The possibility of a Greek default and the contagion effect it may have on other EU economies such as Ireland, Italy, Spain and especially Portugal may continue to create market instability, despite the favourable effect from the 3-year liquidity operations from the ECB in December 2011 and February 2012 and the presentation of the programme of Outright Monetary Transactions by the European Central Bank in September 2012, which contributed to the stabilisation of the financial markets and a significant improvement in terms of the liquidity available in the market. These downward pressures on growth were not counterbalanced by fiscal policy stimuli, as European governments continued to implement restrictive fiscal policies, not only in the European periphery economies, but also in the main core European economies. After having contracted by 0.6 per cent. in 2012, the Euro Zone economy contracted by 0.2 per cent. in the first quarter of 2013 and is widely expected to continue to contract throughout the first half of 2013, exerting additional pressure on the Portuguese economy.

### **1.3 *Financial Markets***

The performance of the BES Group is generally influenced by conditions in the global financial markets and the macroeconomic conditions in the countries in which it operates. In particular, the global financial system has operated under difficult conditions since August 2007 and the financial markets have had particularly negative performances after the insolvency of several international financial institutions since September 2008. This situation has caused unprecedented disruptions in the financial markets worldwide in relation to liquidity and funding of the international banking system. Furthermore, this situation has put significant pressure on the core business of many investment banks, commercial banks, and insurance companies worldwide. In response to the instability and lack of liquidity in the market, some countries, including some members of the EU and the United States of America, have intervened by injecting liquidity and capital into the system with the goal of stabilising these financial markets and, in some cases, preventing the insolvency of certain financial institutions.

Despite these measures, volatility in the capital markets has continued at an extraordinary level compared to the past. The potential impact of the sovereign debt crisis in Europe has exacerbated investors' fears and created a cloud of uncertainty with respect to the European financial sector, particularly with respect to the economies in the periphery of the Euro Zone. These developments have created an unfavourable environment for banking activity generally. The current economic environment creates challenges for the BES Group and may adversely affect its business, financial condition and results of operations in the following ways:

- The circumstances mentioned above have caused a general slowdown in the business of the BES Group, an increase in its funding costs (both wholesale and retail) and a reduction in its share prices and asset values. Any worsening of the current economic climate could jeopardise the BES Group's strategy or exacerbate these trends and adversely affect its financial performance and condition.
- The BES Group is exposed to potential losses if certain financial institutions, or other counterparties to the BES Group, become insolvent or are not able to meet their financial obligations to the BES Group. Moreover, the performance of the BES Group may be influenced by an inability to recover the value of its assets at percentage levels consistent with its historical recovery estimates, particularly as such estimates could prove to be inaccurate in light of the unprecedented turbulence in the markets.

- Numerous banks worldwide have been and are being supported in part by various “rescue plans” and other types of support by their home country governments. The BES Group is uncertain as to how much longer governmental support will be needed to keep these banks solvent and whether governments will have the means or the political will to continue, or if necessary expand, this support. Any failure of government support to continue, or if necessary to expand, could result in more bank failures and a heightened lack of confidence in the global banking system, thus increasing the challenges faced by BES and other financial institutions.
- In addition, external intervention from the EU and the IMF might involve a reorganisation of the Portuguese banks. Whilst this may erode their deposit base and negatively impact upon their financing needs, it might also provide the conditions necessary to ensure that Portuguese banks have access to regular funding during the Stabilisation Programme. There can be no assurance, however, that the funding requirements originally anticipated will be adequate. There might also be difficulties in resuming market based financing when the Stabilisation Programme is completed. In the future, Portuguese banks might be required to comply with more stringent regulatory capital ratios that necessitate recapitalisation. In the context of the programme agreed by the Portuguese government with the Troika, the Bank of Portugal set the minimum Core Tier 1 ratio at 10 per cent. to be met by Portuguese banks from December 2012. BES Core Tier 1 ratio as of 31st December, 2012 was 10.5 per cent. In general, the current economic conditions and unfavourable financial environment, including those potential developments outlined above, could have a material adverse effect on the BES Group’s business, financial condition and results of operations.

#### **1.4 *Banking Markets***

The BES Group faces intense competition in all of its areas of operation (including, among others, corporate and retail banking, investment banking, specialised credit and asset management), both in Portugal and its international markets. Competition for customer deposits has been especially intense in Portugal. The BES Group’s competitors in the markets in which it is active are principally commercial and investment banks.

The continuing financial crisis could introduce additional competitive challenges, as many national governments (including the Portuguese government) seek to provide support in a variety of forms to banks organised in their jurisdictions. Depending on the level of this government support and the financial strength of the banks in question, this support could strengthen the competitive position of these banks and intensify the competition faced by the BES Group.

Structural changes in the Portuguese economy in the past have significantly increased competition in the Portuguese banking sector. These changes are principally related 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 European Union and the introduction of the Euro. Mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market share, a process which may continue. Competition has further increased with the emergence of non-traditional distribution channels such as internet and telephone banking.

Competition for customer deposits has been especially intense in Portugal. Competition in the Portuguese market can have an adverse effect on the activities of the BES Group. The competition is affected by consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. If the BES Group is unable to provide attractive product and service offerings that are profitable, it may lose market share or incur losses on some or all of its activities, which could adversely affect its financial condition and its results of operations. Although BES believes that it is

in a strong position to continue to compete in the markets in which it operates, there can be no assurance that it will be able to compete effectively in these markets.

In addition, competition in the Angolan market is robust, with international banks competing against some very strong local and regional players. BES believes that increased competition in Angola could put pressure on its operations there.

#### **1.5 *Economic conditions in the international markets and adverse political, governmental or economic developments related to its international expansion***

The BES Group continues to pursue its international strategy, with particular emphasis on expanding its market position in Spain, Brazil and Africa (namely in Angola, Mozambique, Libya and Cape Verde) and continuing to capitalise on its established positions in France, Luxembourg, the United Kingdom, the United States and Macao. The BES Group's performance, results of operations and financial condition are affected by the economic conditions and levels of economic activity in the countries where the BES Group operates, including in Spain, Brazil and Angola. Consequently, a protracted global economic decline could reduce the overall level of economic activity of any one or more of the international markets where the BES Group's operates, which could have an adverse effect on the BES Group and its results of operations and financial condition.

Accordingly, BES gives no assurance that it will be successful in Spain, Brazil, Angola or any of the other international markets in which it operates. The BES Group's international operations are exposed to the risk of adverse political, governmental or economic developments in the countries in which it operates and other risks associated with doing business in emerging markets. In particular, certain countries where the BES Group has operations, including Angola, have experienced political, civil and economic instability in the past and may face such instability again in the future. These factors could have a material adverse effect on the BES Group's financial condition and results of operations.

In Libya, which is still consolidating the political and government changes following the fall of the Ghaddafi regime, the BES Group has exposure through a participation of 40 per cent. in Aman Bank (with management control). Although Aman Bank has not been the subject of sanctions, and did not suffer significant damage to its infrastructure during the war to overthrow the previous regime, there can be no assurance regarding its future performance due to uncertainty following the regime change, particularly as the country transitions to a new government and institutions.

#### **1.6 *Interest Rate Risk***

The BES Group is subject to the risks typical of banking activities, such as interest rate fluctuations. Interest rate risk may be defined as the impact on shareholders' equity or on net interest income due to an adverse change in market interest rates. As is the case with other banks in Portugal, the BES Group, and especially its corporate and retail segment, is particularly exposed to differentials between the interest rates payable by it on deposits and the interest rates that it is able to charge on loans to customers and other banks. This exposure comes from the fact that, in the Portuguese market, loans typically have variable interest rates, whereas the interest rates applicable to deposits are usually fixed for periods that may vary between three months and three years. As a result, Portuguese banks, including BES, frequently experience difficulties in adjusting the interest rates that they pay for deposits in line with market interest rate changes. This trend is reinforced by intense competition in the sector and the current low interest rate environment that puts pressure on a bank's deposit margin.

Interest rates are sensitive to several factors that are out of the BES Group's control, including fiscal and monetary policies of governments and central banks, as well as domestic and international

economic and political conditions. Changes in market interest rates can affect the interest rates that the BES Group actually charges, receives on its interest-earning assets, in a different way when compared to the rates that the BES Group pays for its interest bearing liabilities. This difference may reduce the net interest margin, which could have a material adverse effect on the BES Group's results of operations.

As a result of the sovereign debt crisis and the weak European economic conditions and outlook, the ECB has lowered its benchmark interest rate for the Euro Zone from 1 per cent. to 0.75 per cent. in July 2012 and to 0.5 per cent. in May 2013, respectively.

A rise in interest rates could reduce the demand for credit and the BES Group's ability to generate credit for its clients, as well as contribute to an increase in the credit default rate. Conversely, a further reduction in the level of interest rates may adversely affect the BES Group through, among other things, a lower margin on deposits, a decrease in demand for deposits and an increase in competition in deposit-taking and lending to customers. As a result of these factors, significant changes or volatility in interest rates could have a material adverse impact on the business, financial condition or operating results of the BES Group.

The BES Group has been repricing its loan portfolio. However, it has not repriced its portfolio of mortgages, which represented, on 31st December, 2012, 22.7 per cent. of the gross loans to its clients. Therefore the BES Group is dependent on obtaining higher spreads on new loan production to impact, on a long-term basis, the average interest spread of its global mortgages portfolio. If the BES Group is unable to adjust the interest rate payable on deposits in line with the changes in market interest rates receivable by it on loans, or if the BES Group's monitoring procedures are unable to manage adequately interest rate risk, its net interest income could rise less or decline more than its interest expense, in which case the BES Group's results could be negatively affected.

## **1.7 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 BES Group's business. Adverse changes in the credit quality of the BES 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 BES Group's assets and require an increase in provision for bad and doubtful debts and other provisions. Over the past three years, the BES Group has set aside provisions for loan losses of €351.8 million, €600.6 million and €814.8 million in each of 2010, 2011 and 2012, respectively. Accordingly, the BES Group is subject to credit risk, i.e. the risk that the BES Group's clients and other counterparties are unable to fulfil their payment obligations.

The BES Group is exposed to different counterparties in the normal course of its business, but its exposure to counterparties in the financial services industry is significant. This exposure can arise through trading, lending, deposit-taking, clearance and settlement and numerous other activities and relationships. These counterparties include institutional clients, brokers and dealers, commercial banks and investment banks. Many of these relationships expose the BES Group to credit risk in the event of default of a counterparty or client. In addition, the BES Group's credit risk may be exacerbated when the collateral it holds cannot be realised at, or is liquidated at prices not sufficient to recover, the full amount of the loan or derivative exposure it is due to cover. Many of the hedging and other risk management strategies utilised by the BES Group also involve transactions with financial services counterparties. The insolvency of these counterparties may impair the effectiveness of the BES Group's hedging and other risk management strategies, which could in turn have a material adverse effect on the BES Group's financial condition and results of operations.



Although the BES Group regularly reviews its exposure to its clients and other counterparties, as well as its exposure to certain economic sectors and regions which the BES Group believes to be particularly critical, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, the collateral and security provided to the BES Group may be insufficient to cover the exposure or others' obligations to it, for example, as a result of sudden market declines that reduce the value of the collateral. Accordingly, if a major client or other significant counterparty were to default on its obligations this could have a material adverse effect on the BES Group's financial condition and results of operations.

The BES Group actively manages credit risk and analyses credit transactions. Expectations about future credit losses may, however, be incorrect for a variety of reasons. An unexpected decline in general economic conditions, unanticipated political events or a lack of liquidity in the economy may result in credit losses which exceed the amount of the BES Group's provisions or the maximum probable losses envisaged by its risk management models. As the BES Group's operations are mostly concentrated in Portugal, it is particularly exposed to the risk of a general economic downturn or other events which affect default rates in Portugal. An increase in the BES Group's provisions for loan losses or any loan losses in excess of these provisions could have a material adverse effect on the BES Group's financial condition and results of operations. The BES Group's credit at risk<sup>1</sup> was €4.8 billion (9.4 per cent.) as at 31st December, 2012.

## **1.8 Market Risk**

The BES Group currently engages in various treasury activities for its own account, including entering into interest rate, credit, liquidity and exchange rate derivative transactions as well as taking positions in fixed income and equity in the domestic and international markets and trading in the primary and secondary markets for government securities.

The BES Group presented a value at risk (VaR) of €38.1 million as at 31st December, 2012 (a decrease from €47.5 million as at 31st December, 2011) in its trading positions in respect of shares, interest rates, volatility and credit spread, commodities and foreign exchange (excluding the position of foreign exchange relating to shares of the portfolio of assets available for sale and the portfolio of assets at fair value). VaR is calculated using the Monte Carlo simulation, with 99 per cent. confidence level and an investment period of 10 days.

Proprietary trading involves a certain degree of risk. Future proprietary trading results will in part depend on market conditions, and although the BES Group seeks to actively manage its capital markets exposure, it cannot assure it will be successful in doing so. Current market conditions are characterised by extreme volatility, which increase the likelihood of negative proprietary trading results and puts downward pressure on asset valuations. Protracted adverse market movements, particularly asset price declines, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to material losses if BES Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets for which there are less liquid markets.

Assets that are not traded on stock exchanges or other public trading markets, such as derivative contracts between banks, may have values that BES Group calculates using models other than publicly quoted prices. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses that BES Group does not anticipate. As such, the BES Group could incur

---

<sup>1</sup> According to Instruction 23/2011 of the Bank of Portugal, credit at risk includes: a) the total value of credit with capital or interest overdue by 90 days or more; b) other restructured credit, where the principal or interest payments were overdue by more than 90 days and have been capitalised or refinanced without full coverage by collateral or the interest due has not been fully paid by the debtor and c) credits of an insolvent or bankrupt debtor.

significant losses, which could have a material adverse effect on the BES Group's financial condition and results of operations.

## 1.9 *Liquidity risk*

Liquidity risk arises from the present or future inability to pay liabilities as they mature. Banks, principally by virtue of their business of providing long-term loans and receiving short-term deposits, are subject to liquidity risk. Over the last few years many banks have resorted to obtaining funds from market sources instead of their traditional sources (retail deposits).

As of 31st December, 2012, the BES Group's cumulative liquidity gap, calculated in accordance with Bank of Portugal Instruction 13/2009, was €9.4 billion (31st December, 2011: €0.6 billion). The liquidity buffer, i.e. the amount of liquid assets that mature within more than one year, was €0.6 billion as at the same date (31st December, 2011: €2.8 billion).

The maintenance of sufficient customer deposits to fund the BES Group's loan portfolio is subject to certain factors outside the BES Group's control, such as depositors' concerns relating to the economy in general, the financial services industry or the BES Group specifically, ratings downgrades, significant further deterioration in economic conditions in the Republic of Portugal and the existence and extent of deposit guarantees. Any of these factors on their own or in combination could lead to a reduction in the BES Group's ability to access customer deposit funding on appropriate terms in the future and could result in deposit outflows, both of which would have an impact on the BES Group's ability to fund its operations and meet its minimum liquidity requirements, and may require BES to increase its use of sources other than deposits, if available, to fund its loan portfolio.

The BES Group's liquidity could also be impaired by an inability to access debt markets, an inability to sell assets or redeem its investments, other outflows of cash or collateral deterioration. These situations may arise due to circumstances that the BES Group is unable to control, such as continued general market disruption, loss in confidence in financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties. Access to the financial markets has been limited since the disruptions in the credit markets in 2007. Funding in the interbank markets or via the capital markets has been very difficult, especially since 2010 for banks from the EU periphery economies. Even a perception among market participants that a financial institution is experiencing greater liquidity risk can cause significant damage to the institution. Specific ways in which the BES Group could find its liquidity further impaired include the following:

- The BES Group's ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time or are not in the position to finance themselves or are distressed sellers, or because the market value of assets, including financial instruments underlying derivative transactions to which the BES Group is a party, is difficult to ascertain, as has occurred in the recent past.
- Financial institutions with which the BES Group interacts may exercise set-off rights or the right to require additional collateral, which could further impair the BES Group's liquidity position. If the customers with which the BES Group has outstanding but undrawn lending commitments were to draw down on these credit lines at a rate that is higher than BES is anticipating, this could put increased pressure on the BES Group's liquidity position.
- The BES Group's contingency plan for liquidity stress scenarios relies in part on its ability to enter into repo transactions with the European Central Bank. If the European Central Bank were to suspend its repo programme, and if no similar source of repo financing were to

exist in the market at that time, this could severely impede BES' ability to manage a period of liquidity stress.

- An increase in interest rates and/or credit spreads, as well as any restriction on the availability of credit, including, but not limited to, inter-bank credit, could impact the BES Group's ability to borrow on a secured or unsecured basis, which may have a material adverse effect on the BES Group's liquidity and results of operations.

Any of these events could cause the BES Group to curtail its business activities and could increase its cost of funding, both of which could have a material adverse effect on the BES Group's business and results of operations.

Although the BES Group puts significant effort in liquidity risk management and focuses on maintaining liquidity surplus in the short term, the BES Group is exposed to the general risk of liquidity shortfalls and cannot ensure that the procedures in place to manage such risks will be suitable to eliminate liquidity risk.

### **Reliance on the European Central Bank for funding and liquidity**

As a result of the very difficult conditions in the capital markets for short or medium-long term funding, the BES Group's liquidity operations with the ECB are very important. The ECB currently makes funding available to European banks that satisfy certain conditions to obtain such funding, including pledging eligible collateral.

At 31st December, 2012, the BES Group's total portfolio of securities eligible for rediscount with the ECB was €19.4 billion (31st December, 2011: €15.1 billion). The ECB establishes the valuation and the eligibility criteria for collateral assets to be used on repo transactions with financial institutions. Changes to these valuations or the eligibility criteria can have a negative impact on the amount of available assets for that purpose, and reduce the liquidity lines available from the ECB. Additionally, further downgrades of the credit rating of the Republic of Portugal or Portuguese corporations would result in increased haircuts to any eligible collateral or such debt not being eligible and consequently a reduction in the pool of assets that might be considered eligible collateral.

At 31st December, 2012, BES had outstanding borrowings of €7.9 billion from the ECB (31st December, 2011: €6.9 billion), borrowed against the BES Group's portfolio of securities eligible for rediscount with the ECB. In the current environment, the curtailment or termination of liquidity operations by the ECB could result in the BES Group having to dispose of its assets, potentially with a high discount to their book values, in order to comply with its obligations and to seek alternative sources of funding which might only be available, if at all, at unfavourable conditions and could significantly increase its funding costs. This would have a corresponding negative impact on its results of operations and financial condition.

Nonetheless, due to significant instability and volatility in the financial markets, in October 2011, the ECB announced new long-term refinancing operations with maturities of 12 and 13 months (in the amounts to be requested by the banks) and the maintenance of the normal liquidity lending operations in unlimited amounts (for one week, one month and three months). In addition, the ECB progressively reduced the key benchmark rate (to 1 per cent. in December 2011, 0.75 per cent. in July 2012 and 0.5 per cent. in May 2013) and announced a number of measures to facilitate the Euro Zone banking sector's access to liquidity and the restoration of the ordinary course of the interbank money markets:

- (i) the reduction of the reserve requirement ratio for European banks from 2 per cent. to 1 per cent.,
- (ii) two unlimited three-year liquidity facilities (instead of the previous maximum term of 13 months) to be made available on 21st December, 2011 and 29th February, 2012 (the total amount borrowed by the BES Group under these facilities is €10.2 billion) of which €1 billion was already reimbursed in the beginning of 2013, and
- (iii) the loosening of the eligibility criteria for collaterals accepted by the ECB.

The BES Group has been implementing measures in order to diversify its financing sources beyond the ECB, and has accelerated the deleveraging process by making an effort to increase customer funds and reduce customer loans. This risks increasing the cost of deposits, which may not be completely offset by the process of repricing of loans and could adversely impact the net interest margin. There can be no assurances as to when BES will again be able to access the public wholesale markets or the cost of any market funding if and when such markets should become available.

In addition to the usual and to the extraordinary liquidity measures provided by the ECB, there is a special measure, the Emergency Liquidity Assistance, to allow all Euro Zone central banks to support domestic financial institutions, which is applicable only to illiquid but solvent financial institutions. However, this is a temporary measure, which aims to re-establish the normal monetary transmission mechanisms and ensure the stability of the financial system, and the availability, quantum and conditionality of any funding is uncertain.

#### **1.10 *Operational Risk***

The BES Group is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised frauds, as a result of the BES Group's financial operations), breach or delays in the provision of services and compliance with risk management requirements. The BES Group continually monitors these risks by means of, among other things, advanced administrative and information systems and insurance coverage in respect of certain operational risks. However, the BES Group may be unable to successfully monitor or prevent these risks in the future. Any failure to successfully execute the BES Group's operational risk management and control policies could have a material adverse effect on the BES Group's financial condition and results of operations.

#### **1.11 *Risks associated with the implementation of its risk management policies***

The BES Group is exposed to a number of risks, including, among others, market risk, credit risk, liquidity risk and operational risk. Although BES has implemented risk management policies for each of the risks that it is exposed to, the policies and procedures it employs to identify, monitor and manage these risks may not be fully effective.

#### **1.12 *Risks associated with the increasing dependence on information technology systems***

Banks and their activities 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. Harmonising the IT systems in the BES Group to create a consistent IT architecture poses significant challenges. IT systems need regular upgrading to meet the needs of changing business and regulatory requirements and to keep pace with possible expansion into new markets.

The BES Group may not be able to implement necessary upgrades on a timely basis, and upgrades may fail to function as planned. In addition to costs that may be incurred as a result of any failure of

its IT systems, the BES Group could face fines from bank regulators if its IT systems fail to enable it to comply with applicable banking or reporting regulations.

The BES Group maintains back-up systems for its operations, with one of those back-up systems being located in Portugal outside of its premises. However, there are limited scenarios, for example in the event of a major catastrophe resulting in the failure of its information systems, where the BES Group could lose certain recently entered data with regard to its Portuguese operations or could lose more significant portions of data with regard to its international operations.

The BES Group is reliant on its outsourcing contract with IBM for the maintenance and operation of its IT systems. Should IBM become unwilling or unable to fulfil its obligations under the outsourcing contract, the BES Group could find the smooth functioning of its IT systems compromised.

A major disruption of the BES Group's IT systems, whether under the scenarios outlined above or under other scenarios, could have a material adverse effect on the normal operation of the BES Group's business and thus on its financial condition and results of operations.

### **1.13 *Risks associated with the ability to maintain its customer base***

The BES Group's success depends on its ability to maintain its customer base and to offer its customers a wide range of high quality and competitive products and consistently high levels of service. The BES Group has sought to achieve this objective by segmenting its branch networks to better serve the diverse needs of each customer segment through, among other things, cross-selling the products and services of the BES Group's subsidiaries through its marketing and distribution networks in Portugal. Any failure to maintain the BES Group's customer base or to offer the BES Group's customers a wide range of high quality and competitive products or consistently high levels of service could have a material adverse effect on the BES Group's financial condition and results of operations.

### **1.14 *Regulation***

Banking activities in Portugal are subject to extensive regulation by supervision authorities, which have broad administrative powers over many aspects of the financial services business, which include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices, among others. These various regulations can significantly increase the cost structure of a bank and limit its possibilities for increasing its income.

Specific examples where regulation can impact the conduct of the BES Group's business include the following:

- The minimum cash requirement to be held with the Bank of Portugal applicable to Portuguese banks was fixed at 2 per cent. of the total amount of deposits until 18th January, 2012, when the reserve requirement ratio was reduced to 1 per cent. An increase in this percentage or a decline in the rate accrued on those cash reserves would have an adverse impact on the BES Group's net income.
- Further to the Stabilisation Programme agreed by the Troika and the Portuguese government in the second quarter of 2011, Portuguese banks are required to maintain a minimum Core Tier 1 Capital ratio of 9 per cent. by 31st December, 2011, 10 per cent. by 31st December,

2012 (Notice no. 3/2011 issued by the Bank of Portugal) and 10 per cent. from December, 2012.

The BES Group capital ratios are calculated under the Basel II regulations. As from the first quarter of 2009, BES has been authorised by the Bank of Portugal to use the Internal Ratings Based (“IRB”) approach to calculate credit risk extended by BES headquarters, BES’ London branch and BES Investimento, to be extended with a roll-out to other BES Group entities and portfolios. The Standardised Approach method (“TSA method”) is used for operational risk.

At the end of the third quarter of 2010, the Basel Committee on Banking Supervision made several decisions regarding the functioning of the global financial system, that have resulted in a set of recommendations, named Basel III. Banks have a transitory period (from 1st January, 2013 to 1st January, 2019) to comply with the approved rules, aimed at strengthening financial institutions and preventing new financial crises in the future.

Basel III rules set out the following regulatory framework to be gradually implemented by 1st January, 2019:

- Minimum Common Equity Tier 1 ratio: 7 per cent. (made up of a 4.5 per cent. minimum requirement and an additional 2.5 per cent. capital conservation buffer);
- Minimum Tier 1 ratio: 8.5 per cent. (made up of a 6 per cent. minimum requirement and an additional 2.5 per cent. of capital conservation buffer);
- Total capital ratio: 10.5 per cent.;
- Introduction of an additional counter-cyclical buffer of between 0 per cent. and 2.5 per cent. of risk weighted assets to be composed of Common Equity Tier 1 capital under conditions to be determined by the regulatory authorities; and
- Establishment of transitional periods to the absorption of the deductions of capital items not eligible under Basel III and new deductions to the capital base.

The liquidity changes include the proposed introduction of short-term and longer-term standards for funding liquidity referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio. The Liquidity Coverage Ratio, which is recommended for introduction in 2015, addresses the sufficiency of high quality liquid assets to meet short-term liquidity needs under a specified acute stress scenario which may not fall below 100 per cent. of the estimated net cash outflows for the following 30 days. The Net Stable Funding Ratio, which is recommended for introduction in 2018, will seek to establish a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution’s assets and activities over a one-year period.

The Basel III rules have not yet been approved by the European Union and their incorporation into European and national law has, accordingly, not yet taken place. On 20th July, 2011, the European Commission adopted a legislative package of proposals (known as CRD IV) to implement the changes through the replacement of the existing Capital Requirements Directive with a new Directive and Regulation. As with Basel III, the proposals contemplate the entry into force of the new legislation from January 2013, with full implementation by January 2019; however the proposals allow individual Member States to implement the stricter definition and/or level of capital more quickly than is envisaged under Basel III.

The leverage ratio is defined as Tier 1 capital divided by a measure of non risk weighted assets. If Basel III is followed under CRD IV, the leverage ratio may not fall below 3 per cent. effective as of

2017. The ultimate aim of Basel III/CRD IV is to reduce leverage in order to bring institutions' assets more in line with their capital.

At 31st December, 2012, the total capital ratio of the BES Group was 11.3 per cent., with its Tier 1 ratio and Core Tier 1 ratio equal to 10.4 per cent. and 10.5 per cent., respectively. Such ratios were, respectively, 10.7 per cent., 9.4 per cent. and 9.2 per cent. at 31st December 2011. The capital adequacy requirements applicable to the BES Group limit its ability to advance loans to customers and may require it to issue additional equity capital or subordinated debt in the future, which are expensive sources of funds. Furthermore, capital adequacy ratios such as those mandated by Basel II have a "procyclical" effect, meaning that in difficult credit environments such as at present, a bank may find its capital ratios decreased at precisely the time that the economy is most in need of increased financing activity. Thus, as a result of this "procyclical" effect, capital adequacy requirements intended to ensure the health of banks can in fact exacerbate the effect of an economic downturn, further adding to the strain on the banking system.

In addition, the Bank of Portugal has established minimum provisioning requirements regarding loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies. Therefore, any change in increase in the amount of these requirements could have an adverse impact on the BES Group's financial condition and results of operations.

The regulatory laws governing banking activity may change at any time in ways which may have an adverse effect on the business of the BES Group. Furthermore, the BES Group cannot predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which the BES Group conducts its business, the products and services it can offer and the value of its assets.

In addition, the BES Group's operations are subject to national regulation in each jurisdiction in which it operates. Often, these regulations are complex and costly to comply with in terms of time and other resources. Breach of applicable regulations may lead to penalties, fines, compliance costs, reputational harm and even loss of licenses to operate.

#### **1.15 *Risks relating to BES shareholding and corporate structure***

As of December 2012, the major shareholders of BES hold, directly or indirectly, approximately 53 per cent. of the voting rights of BES and have the ability to exercise significant influence over or determine the outcome of certain shareholder actions.

BESPAR, which holds the interests of ESFG and an indirect stake in Crédit Agricole, owned 35.3 per cent. of BES as of 31st December, 2012. Crédit Agricole, has a direct holding of 10.81 per cent.

#### **1.16 The BES Group may be affected by the proposed introduction of a Financial Transactions Tax ("FTT")**

The European Commission has published a proposal for a Directive for a common FTT in certain participating Member States (including Portugal), which may also impact persons not in participating Member States. The proposal remains subject to negotiation between participating Member States and is the subject of a legal challenge. Accordingly, it is not clear when the FTT will be implemented, if at all, and what form it will take if it is implemented.

Given the lack of certainty surrounding the proposals and their implementation, it is not possible to predict what effect the proposed financial transaction tax might have on the business of the BES Group as it could materially adversely affect the business of the BES Group.

## **RISK FACTORS RELATING TO BES FINANCE**

### **2. Factors that may affect BES Finance's ability to fulfil its obligations under the Notes issued under the Programme**

BES Finance Ltd is a funding vehicle of the BES Group. As such it raises funds to BES by way of intragroup loans. In the event that BES fails to make a payment under an intra-group loan, BES Finance may not be able to meet its payment obligations under the issued Notes.

## **RISK FACTORS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME**

### **3. Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

#### **3.1 *Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

#### *Impact of Basel Committee reforms on subordinated debt*

On 16 December 2010, the Basel Committee issued its final guidance (the "Basel December 2010 Guidelines") in relation to a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions ("Basel III"). The Basel December 2010 Guidelines included a set of eligibility criteria for Additional Tier 1 and Tier 2 capital instruments.

In the European Union, Basel III will be implemented through the amended and re-stated Capital Requirements Directive (CRD IV), which will need to be transposed into the national law of each member state, and a new Regulation (CRR) which will be directly applicable in each member state. The final agreed text of CRD IV and CRR has been adopted by the European Parliament, and now requires the formal approval of the Council and translation into each of the official languages before publication in the Official Journal. If CRD IV and CRR are published in the Official Journal before 1 July 2013, implementation will be from 1 January 2014. If the text is published on or after 1 July 2013, implementation will be from 1 July 2014.

The Basel Committee's press release dated 13 January 2011 entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" included additional requirements for all Tier 2 and Additional Tier 1 instruments (the "Basel III Non-Viability Requirement") as follows:

"The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

- (a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;
- (b) a peer group review confirms that the jurisdiction conforms with clause (a); and
- (c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph.



The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority."

The powers provided to resolution authorities in the draft CMD (see "*Impact of EU Crisis Management Directive*" below) include powers to ensure relevant capital instruments (including Tier 2 capital instruments) fully absorb losses at the point of non-viability of the issuing institution. It is expected that the CMD will confer powers on the resolution authorities to require such capital instruments to be written down in full or converted into common equity Tier 1 instruments at the point of non-viability and before any other resolution action is taken (the "CMD Loss Absorption Requirement"). The draft CMD currently contemplates that the CMD Loss Absorption Requirement will be implemented in Member States with effect from 1 January 2015.

The point of non-viability for such purposes is the point at which the appropriate resolution authority determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments are written down or extraordinary public support is provided and without such support the appropriate authority determines that the institution would no longer be viable.

It is currently unclear whether the CMD Loss Absorption Requirement, when implemented, will apply to capital instruments (such as Subordinated Notes) that are already in issue at that time of implementation or whether any transition rules will apply. If and to the extent that the CMD is implemented so as to apply to instruments already in issue at the time of implementation, such Notes will be subject to the provisions of the CMD (including the CMD Loss Absorption Requirement), in which case such Notes may be subject to write-down or conversion to common equity Tier 1 instruments upon the occurrence of the relevant trigger event, which may result in holders of Subordinated Notes losing some or all of their investment. The exercise of any such power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the value of such Notes.

In addition to the CMD Loss Absorption Requirement, the CMD is expected to provide resolution authorities with broader powers to implement other resolution measures with respect to distressed banks, which may include (without limitation) the replacement or substitution of the relevant Issuer as obligor in respect of debt instruments, modifications to the terms of debt instruments (including altering the maturity (if any) and/or the amount of interest payable and/or imposing a temporary suspension on payments) and discontinuing the listing and admission to trading of financial instruments.

As the draft CMD is not in final form, it is not yet possible to assess accurately the full impact of the relevant loss absorption provisions. Until fully implemented, the relevant Issuer cannot predict the precise effects of the changes that result from any proposed Basel III reforms on either its own financial performance or the price of Subordinated Notes.

*If the relevant Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*

An optional redemption feature of Notes is likely to limit their market value. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*If the relevant Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned*

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the relevant Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

*The interest rate on Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of Reset Notes*

Reset Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the First Reset Date. On the First Reset Date, the Second Reset Date (if applicable) and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Mid-Swap Rate and the First Margin or Subsequent Margin (as applicable) as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a "Subsequent Reset Rate"). The Subsequent Reset Rate for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

*Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates*

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

*An investor in Subordinated Notes assumes an enhanced risk of loss in the event of the relevant Issuer's and/or the Guarantor's insolvency*

The relevant Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to its obligations to Senior Creditors. "Senior Creditors" means creditors of the Issuer or, as the case may be, the Bank who (x) are depositors or other unsubordinated creditors of the Issuer or, as the case may be, the Bank or (y) are subordinated creditors of the Issuer or, as the case may be, the Bank other than those whose claims rank *pari passu* with or junior to the claims of the holders of Subordinated Notes or (in respect of the Bank) persons entitled to claim under the Guarantee in respect of such Notes. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real

risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

#### *Impact of EU Crisis Management Directive*

The European Commission has published proposals for a crisis management directive which is intended to enable a range of actions to be taken by relevant regulatory authorities in relation to credit institutions and investment firms which are considered to be at risk of failing. The full scope of the directive and its impact on the relevant Issuer is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Notes.

On 6 June 2012, the European Commission published a draft legislative proposal for a directive providing for the establishment of an EU wide framework for the recovery and resolution of credit institutions and investment firms (the "Crisis Management Directive" or "CMD"). The stated aim of the draft CMD is to provide resolution authorities with common tools and powers to address banking crises pre emptively in order to safeguard financial stability and minimise taxpayers' contributions to bank bail outs and/or exposure to losses. The powers provided to authorities in the draft CMD are divided into three categories: (i) preparatory steps and plans to minimise the risks of potential problems (preparation and prevention); (ii) in the event of incipient problems, powers to arrest a firm's deteriorating situation at an early stage so as to avoid insolvency (early intervention); and (iii) if insolvency of a firm presents a concern as regards the general public interest, a clear means to reorganise or wind down the firm in an orderly fashion while preserving its critical functions and limiting to the maximum extent any exposure of taxpayers to losses.

The draft CMD currently contains four resolution tools and powers:

- (i) sale of business – enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply;
- (ii) bridge institution - enables resolution authorities to transfer of all or part of the business of the firm to a "bridge bank" (a public controlled entity);
- (iii) asset separation - enables resolution authorities to transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time; and
- (iv) bail in - gives resolution authorities the power to write down the claims of unsecured creditors of a failing institution and to convert debt claims to equity (subject to certain parameters as to which liabilities would be eligible for the bail in tool).

The draft CMD currently contemplates that it will be implemented in European Union member states with effect from 1 January 2015, except for the bail in tool, which is contemplated to be implemented by 1 January 2018.

The powers currently set out in the draft CMD would impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. However, the proposed directive is not in final form and changes may be made to it in the course of the legislative process. In addition, many of the proposals contained in the draft CMD have already been implemented in the Banking Act and it is currently unclear to what extent, if any, the provisions of the Banking Act may need to change once the draft CMD is implemented. See risk factor entitled "*Impact of Basel Committee reforms on subordinated debt*" above.

Accordingly, it is not yet possible to assess the full impact of the draft CMD on the relevant Issuer. Once it is implemented, its implementation or the taking of any actions currently contemplated by it

may adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the relevant Issuer to satisfy its obligations under the Notes.

### **3.2 Risks related to Notes generally**

Set out below is a description of material risks relating to the Notes generally:

*The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Holders and without regard to the individual interests of particular Holders*

The terms and conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The terms and conditions of the Bearer Notes other than Interbolsa Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) modifications of the Notes which are not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or (ii) modifications to the Notes or the Trust Deed of a formal, minor or technical nature or which are made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 18 of the “Terms and Conditions of the Notes”. Interbolsa Notes are not constituted by the Trust Deed and thus any such modification or substitution will have to be agreed in accordance with the provisions of meetings of holders of Interbolsa Notes (see Condition 15(b) of the “Terms and Conditions of the Notes”).

#### *Withholding under the EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest or similar income paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. At a meeting on 22 May 2013, the European Council called for the adoption of an amended Directive before the end of 2013.

On 10 April 2013, the Luxembourg Ministry of Finance announced the Luxembourg government’s intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive for all interest payments made by Luxembourg financial operators to individuals resident in another Member State.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment,

neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

*Foreign Account Tax Compliance withholding may affect payments on the Notes*

Pursuant to sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (“FATCA”) or similar law implementing an intergovernmental approach to FATCA, the Issuer and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, certain payments in respect of the Notes. This withholding tax may be triggered if (i) the Issuer is a foreign financial institution (“FFI”) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (“IRS”) to provide certain information on its account holders (making the Issuer a “Participating FFI”), (ii) the Issuer makes payments treated as attributable to U.S. source payments (“foreign passthru payments”), and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of such Issuer, or (b) any FFI, that is an investor, or through which payment on such Notes is made is not a Participating FFI. When a payment will be treated as a foreign passthru payment has not yet been defined, and no amounts will be required to be withheld from any foreign passthru payments before 1st January, 2017. Withholding will be required in respect of (i) any Notes issued on or after the date that is six months after the date final regulations defining the term “foreign passthru payment” are published and (ii) any Notes which are treated as equity for U.S. federal tax purposes, whenever issued. With respect to the Notes held through Euroclear and Clearstream, while the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, with respect to the Notes held through Interbolsa, payments made to the financial intermediaries holding control accounts with Interbolsa could be subject to FATCA withholding if such financial intermediaries are not Participating FFIs. FATCA may also affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding.

If an amount in respect of FATCA withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes, neither the Issuer nor the Guarantor nor any paying agent nor any other person would, pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. FATCA is particularly complex and its application to the Notes remains unclear in certain respects. Holders of Notes should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

*Investors who purchase Bearer Notes in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Notes are subsequently required to be issued*

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. Should definitive Notes be printed, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### 3.3 *Risks relating to Interbolsa Notes*

#### *Reliance upon Interbolsa procedures and Portuguese law*

Investments in Interbolsa Notes will be subject to Interbolsa procedures and Portuguese law with respect to the following:

(a) *Form and Transfer of Interbolsa Notes*

Notes held through accounts of financial institutions, which are licensed to act as financial intermediaries and which are entitled to hold control accounts with Interbolsa on behalf of their customers and which include any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg (each such institution an “Affiliate Member of Interbolsa”) will be represented in book-entry form (*forma escritural*) and can be either registered notes (*nominativas*) or bearer notes (*ao portador*) as specified in the applicable Final Terms. Interbolsa Notes shall not be issued in definitive form, whether in definitive bearer form or otherwise. Interbolsa Notes will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by the Affiliate Members of Interbolsa on behalf of the relevant Noteholders. Such control accounts will reflect at all times the aggregate number of Interbolsa Notes held in the individual securities accounts opened by the clients of the Affiliate Members of Interbolsa (which may include Euroclear and Clearstream, Luxembourg). The transfer of Interbolsa Notes and their beneficial interests will be made through Interbolsa.

(b) *Payments on Interbolsa Notes*

All payments on Interbolsa Notes (including without limitation the payment of accrued interest and principal) will be made by the Issuer to the Portuguese Paying Agent and (i) **if made in euro** will be (a) credited, according to the procedures and regulations of Interbolsa, by the Portuguese Paying Agent to the payment current-accounts held in the payment system of the Bank of Portugal by the Affiliate Members of Interbolsa whose control accounts with Interbolsa are credited with such Notes and thereafter (b) credited by such Interbolsa Affiliate Members from the aforementioned payment current-accounts to the accounts of the Noteholders or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; (ii) **if made in currencies other than euro** will be (a) transferred, on the payment date and according to the procedures and regulations applicable by Interbolsa, from the account held by the Portuguese Paying Agent in the Foreign

Currency Settlement System (*Sistema de Liquidação em Moeda Estrangeira*), managed by Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Affiliate Members of Interbolsa, and thereafter (b) transferred by such Affiliate Members of Interbolsa from such relevant accounts to the accounts of the Noteholders of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer must provide Interbolsa with a prior notice of all payments in relation to the Interbolsa Notes and all necessary information for that purpose. In particular, such notice must contain:

- (a) the identity of the Portuguese Paying Agent responsible for the relevant payment; and
- (b) a statement of acceptance of such responsibility by the Portuguese Paying Agent.

Interbolsa shall notify the Portuguese Paying Agent of the amounts to be settled, which Interbolsa calculates on the basis of the balances and on the tax rules governing the accounts of the Affiliate Members of Interbolsa.

In the case of a partial payment, the amount held in the relevant current account of the Portuguese Paying Agent must be apportioned pro-rata between the accounts of the Affiliate Members of Interbolsa. After a payment has been processed, such process shall be confirmed to Interbolsa.

The Noteholders must rely on the procedures of Interbolsa to receive payment under the Interbolsa Notes. The records relating to payments made in respect of beneficial interests in the Interbolsa Notes are maintained by the Affiliate Members of Interbolsa and the Issuer accepts no responsibility for, and will not be liable in respect of, the maintenance of such records.

(c) *Portuguese Tax Rules*

Pursuant to Decree-Law 193/2005, of 7th November, 2005, as amended from time to time, investment income paid to holders of Interbolsa Notes, and capital gains derived from a sale or other disposition of such Notes, will be exempt from Portuguese income tax only if certain documentation requirements are duly complied with.

If the Notes are held in an account with an international clearing system (such as Euroclear or Clearstream, Luxembourg), the management entity of such clearing system may not provide the necessary registration services in respect of the Interbolsa Notes, and, therefore, to be eligible for the exemption, the holders of the Interbolsa Notes are required to submit to the management entity of the relevant clearing system, by courier, hand delivery or mail (there is no procedure for electronic filing), on an annual basis:

- (i) a certificate with the name of each beneficial owner, address, tax payer number (if applicable), the identity of the securities, the quantity held and also the reference to the legislation supporting the exemption or the waiver of Portuguese withholding tax; or
- (ii) a declaration that the beneficial owners are exempt from, or not subject to, Portuguese withholding tax.

The certificate and declaration are set out in “*Taxation in Portugal*” on page 202 hereto.

**The Issuer will not gross up payments in respect of any such withholding tax in any of the cases indicated in Condition 8 of the Interbolsa Notes, including failure to deliver or incorrect filling of the certificate or declaration referred to above. Accordingly, holders of Interbolsa Notes must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Interbolsa Notes.**

### **3.4 *Risks related to the market generally***

Set out below is a brief description of the material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

*An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a serverly adverse effect on the market.

*If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates that may adversely affect the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes*

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “Investor’s Currency”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency-equivalent yield on the Notes, (2) the Investor’s Currency-equivalent value of the principal payable on the Notes and (3) the Investor’s Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*The value of Fixed Rate Notes may be adversely affected by movements in market interest rates*

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.



*Credit ratings assigned to the Notes may not reflect all the risks associated with an investment in those Notes*

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the “CRA Regulation”) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (“ESMA”) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

## GENERAL DESCRIPTION OF THE PROGRAMME

*This General Description constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.*

Under the Programme, the Issuers may from time to time issue Notes denominated in any currency agreed between the relevant Issuer and the relevant Dealer, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes is set out in the “Summary” above. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the “Terms and Conditions of the Notes” endorsed on, attached to, or incorporated by reference into, the Notes, as completed by Part A of the applicable Final Terms attached to, endorsed on or incorporated by reference into such Notes, as more fully described under “Form of the Notes” below.

This Prospectus and any supplement to this Prospectus will only be valid for listing Notes on the Official List of the Luxembourg Stock Exchange and their admission to trading on the regulated market of the Luxembourg Stock Exchange, or any other stock exchange in the European Economic Area, in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €20,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Notes, described under “Applicable Final Terms”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for general business in London and Lisbon, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation; and
- (b) the euro equivalent of Zero Coupon Notes (as specified in the applicable Final Terms in relation to the relevant Notes, described under “Form of the Notes”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus. Information contained in the documents incorporated by reference other than information listed in the table below is given for information purposes only.

- (a) the section entitled “Terms and Conditions of the Notes (other than Undated Deeply Subordinated Notes)” from the previous base prospectuses relating to the Programme dated 7th December 2005, 23rd February 2007, 18th January 2008, 18th February 2009, 18th December 2009, 3rd November 2010, 4th November 2011 and 29th May 2012, respectively.
- (b) The press release of the Bank dated 7th May, 2013 entitled “Banco Espírito Santo Group Activity and Results in 1Q13” presenting the unaudited consolidated financial results for the three month period ended on 31st March, 2013, including:
  - (i) income statement (page 40) and;
  - (ii) balance sheet (page 39).
- (c) The auditors’ report and audited consolidated and non-consolidated annual financial statements of the Bank for the financial year ended 31st December, 2012, as set out on page 213 of the Bank’s 2012 annual report including:
  - (i) statements of income (pages 100 and 101);
  - (ii) balance sheet (page 102);
  - (iii) statement of changes in equity (page 103);
  - (iv) cashflow statements (page 104);
  - (v) accounting policies and explanatory notes (pages 110-212); and
  - (vi) auditors’ report (pages 213-215).
- (d) The auditors’ report and audited consolidated and non-consolidated annual financial statements of the Bank for the financial year ended 31st December, 2011, as set out on pages 98-203 of the Bank’s 2011 annual report including:
  - (i) statements of income (pages 100, 101, 127 and 128);
  - (ii) balance sheet (pages 102, 129 and 130);
  - (iii) statement of changes in equity (page 103);
  - (iv) cashflow statements (page 104);
  - (v) accounting policies and explanatory notes (pages 105-199); and
  - (vi) auditors’ report (pages 200-202).

- (e) The auditors' report and audited annual financial statements of BES Finance for the financial year ended 31st December, 2012, as set out in BES Finance's financial statements and notes to the financial statements for the year ended 31st December, 2012, including:
- (i) income statement (pages 2 and 3);
  - (ii) balance sheet (page 4);
  - (iii) statement of changes in equity (page 5);
  - (iv) cashflow statements (page 6);
  - (v) accounting policies and explanatory notes (pages 7 to 44); and
  - (vi) auditors' report (pages 45 and 46).
- (f) The auditors' report and audited annual financial statements of BES Finance for the financial year ended 31st December, 2011, as set out in BES Finance's financial statements and notes to the financial statements for the year ended 31st December, 2011, including:
- (i) income statement (pages 2 and 3);
  - (ii) balance sheet (page 4);
  - (iii) statement of changes in equity (page 5);
  - (iv) cashflow statements (page 6);
  - (v) accounting policies and explanatory notes (pages 7 to 44); and
  - (vi) auditors' report (pages 45 and 46).

For items (b) to (f) above, the information incorporated by reference that is not included in the cross-reference lists above is considered to be additional information that is not required by the relevant annexes of Commission Regulation (EC) No. 809/2004 of 29 April 2004.

Following the publication of this Prospectus a supplement to this Prospectus may be prepared by the relevant Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement to this Prospectus (or contained in any document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the relevant Issuer and from the specified office of the Paying Agent for the time being in Luxembourg.

In addition, such documents will be published on the Luxembourg Stock Exchange's web site ([www.bourse.lu](http://www.bourse.lu)).

BES Finance and the Bank will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the

assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

## FORM OF THE NOTES

### 1. Bearer Notes

Each Tranche of Notes (not applicable to Interbolsa Notes) will be initially represented by a temporary global Note without interest coupons or talons, which on issue will:

- (i) if the temporary global Note is intended to be issued in new global note (“NGN”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “Common Safekeeper”) outside the United States for Euroclear and Clearstream, Luxembourg; and
- (ii) if the temporary global Note is not intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the relevant Tranche to a common depository (the “Common Depository”) outside the United States for Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made outside the United States (against presentation of the temporary global Note if the temporary global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Any reference in this section “Form of the Notes” to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Agent and the Trustee.

On and after the date (the “Exchange Date”) which is 40 days after the date on which any temporary global Note is issued, interests in such temporary global Note unless otherwise specified in the applicable Final Terms or the temporary global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a permanent global Note without interest coupons or talons or, subject to the following proviso, for definitive Notes with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described in the immediately preceding paragraph unless such certification has already been given; provided that a temporary global Note representing Notes having denominations consisting of a minimum Specified Denomination and one or more higher Specified Denominations which are not an integral amount of such minimum Specified Denomination may only be exchanged for definitive Notes upon an Exchange Event (as defined below). The holder of a temporary global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the temporary global Note is improperly withheld or refused. Pursuant to the Principal Agency Agreement (as defined under “Terms and Conditions of the Notes” below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) on a permanent global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the permanent global Note if the permanent global Note is not intended to be issued in NGN form) without any requirement for certification. Unless otherwise specified in the applicable Final Terms, a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, interest coupons and talons attached upon not less than 60 days' written notice to the Agent as described therein, save that a permanent global Note representing Notes having denominations consisting of a minimum Specified Denomination and one or more higher Specified Denominations which are not an integral multiple of such minimum Specified Denomination may only be exchanged for definitive Notes upon an Exchange Event. "Exchange Event" means that the Issuer and/or the Guarantor has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearance system satisfactory to the Trustee is available. The Issuer shall promptly give notice to the Noteholders in accordance with the Terms and Conditions if an Exchange Event occurs. Global Notes and definitive Notes will be issued pursuant to the Principal Agency Agreement.

The following legend will appear on all bearer Notes which have an original maturity of more than one year and on all interest coupons and talons relating to such Notes:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

## **2. Interbolsa Notes**

Notes held through Interbolsa - *Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.* ("Interbolsa") (each an "Interbolsa Note") will be represented in book-entry ("*forma escritural*") form and can be either a registered Note ("*nominativas*") or a bearer Note ("*ao portador*"), as specified in the applicable Final Terms.

Title to Interbolsa Notes will be evidenced by book-entries in accordance with the Portuguese Securities Code and the regulations issued by *Comissão do Mercado de Valores Mobiliários* (Portuguese Securities Market Commission, the "CMVM"), by Interbolsa or otherwise applicable thereto. Each person shown in the book-entry records of a financial institution, which is licensed to act as a financial intermediary and which is entitled to hold control accounts with Interbolsa on behalf of their customers and which includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg (each such institution an "Affiliate Member of Interbolsa"), as having an interest in the Interbolsa Notes shall be the holder of the principal amount of the Interbolsa Notes recorded.

Title to the Interbolsa Notes is subject to compliance with all rules, restrictions and requirements applicable to the activities of Interbolsa and to Portuguese law.

One or more certificates in relation to the Interbolsa Notes (each, a "Certificate") will be delivered by the relevant financial intermediary through which Interbolsa Notes are held in individual securities accounts in respect of a registered holding of Interbolsa Notes upon the request by the relevant Noteholder and in accordance with that financial intermediary's procedures pursuant to article 78 of the Portuguese Securities Code.

The Interbolsa Notes will be registered in the relevant control issue account of the Issuer with Interbolsa and will be held in control accounts by each Affiliate Member of Interbolsa on behalf of the Noteholders. Such control accounts will reflect at all times the aggregate number of Interbolsa Notes held in individual securities accounts opened with the Affiliate Members of Interbolsa by Noteholders, which are clients of the Affiliate Members of Interbolsa and include Euroclear and Clearstream, Luxembourg.

The person or entity registered in the relevant individual securities accounts of an Affiliate Member of Interbolsa (the “Book-Entry Registry” and each such entry therein, a “Book Entry”) as the holder of any Interbolsa Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein).

The Issuer and the Paying Agents may (to the fullest extent permitted by applicable law) deem and treat the person or entity registered in the Book-Entry Registry as the holder of any Interbolsa Note and the absolute owner for all purposes. Proof of such registration is made by means of a Certificate issued by the relevant financial intermediary through which Interbolsa Notes are held in individual securities accounts pursuant to article 78 of the Portuguese Securities Code.

No Noteholder will be able to transfer Interbolsa Notes, or any interest therein, except in accordance with Portuguese law and regulations. Interbolsa Notes may only be transferred in accordance with the applicable procedures established by the Portuguese Securities Code and the regulations issued by the CMVM and Interbolsa.



## APPLICABLE FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of less than €100,000 (or its equivalent in another currency).*

[Date]

**[BES FINANCE LTD./BANCO ESPÍRITO SANTO, S.A.  
(acting through its [head office]/[Madeira branch]/ [Cayman Islands branch]/[London  
branch]/[Luxembourg branch])**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
[Guaranteed by Banco Espírito Santo, S.A.  
[acting through London branch]]<sup>2</sup>  
under the €20,000,000,000  
Euro Medium Term Note Programme**

### PART A– CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “Terms and Conditions”) set forth in the Prospectus dated 17th July, 2013 [and the supplement to the Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Prospectus”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. A summary of the Notes (which comprises the summary in the Prospectus as amended to reflect the provisions of these Final Terms) is annexed to these Final Terms. The Prospectus [and the supplement[s] to the Prospectus[es]] [has/have] been published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) [and] [[is/are] available for viewing at [address]].

The expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus (or equivalent) with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “Terms and Conditions”) set forth in the Prospectus dated [original date] which are incorporated by reference in the Prospectus dated [current date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus dated [current date] [and the supplement[s] to the Prospectus dated [date] [and [date]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Prospectus”) including the Terms and Conditions incorporated by reference in the Prospectus. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. A summary of the Notes (which comprises the summary in the Prospectus as amended to reflect the provisions of these Final Terms) is annexed to these Final Terms. Copies of the Prospectus [and the supplement[s] to the Prospectus] [has/have] been published

---

<sup>2</sup> Delete as appropriate.

on the website of the Luxembourg Stock Exchange (www.bourse.lu) [and] [[is] [are] available for viewing at [address]].]

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[In respect of Notes issued by BES Finance Ltd. which have a maturity of less than one year, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. (i) Series Number: [●]
- (ii) Tranche Number: [●]
- (iii) Date on which the Notes will be consolidated and form a single Series: [Not Applicable]/[The Notes will be consolidated and form a single series with [identify earlier Tranche(s)] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22(i) below, which is expected to occur on or about [date].]
2. Specified Currency or Currencies: [●]
3. Aggregate Nominal Amount
  - Series: [●]
  - Tranche: [●]
4. Issue Price of Tranche: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
5. (i) Specified Denominations: [●] [and intergral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●]]
- (ii) Calculation Amount: [●]  
*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note, there must be a common factor in the case of two or more Specified Denominations.)*
6. [(i)] Issue Date: [●]  
[(ii)] Interest Commencement Date: [●]/[Issue Date]/[Not Applicable]
7. Maturity Date: *[Fixed rate - specify date/Floating rate where the Interest Period and date(s) are adjusted or any other rate where the Interest Period end date(s) are adjusted - Interest Payment Date falling in or nearest*

to [specify month and year] ]

8. Interest Basis: [[●] per cent. Fixed Rate]  
[[ ] month [LIBOR/EURIBOR/[●]]+/- [●] per cent. Floating Rate]  
[Zero Coupon]  
[[ ] per cent. Fixed Rate until [ ], then calculated in accordance with paragraph 14 below]/[Reset Notes]  
(further particulars specified below)
9. Redemption Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●] per cent. of their nominal amount
10. Change of Interest Basis: [Not Applicable/For the period from (and including) the Interest Commencement Date, up to (but excluding) [●] paragraph [13/15] applies and for the period from (and including) [●], up to (and including) the Maturity Date, paragraph [13/15] applies]
11. Put/Call Options: [Investor Put]  
[Issuer Call]  
[Not Applicable]  
(further particulars specified below)
12. [(i)] Status of the Notes: [Senior/Subordinated]  
[(ii)] Status of the Guarantee: [Senior/Subordinated]  
[(iii)] Date [Board] approval for issuance of Notes [and Guarantee] obtained: [●] [and [●], respectively]]  
*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)*

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

13. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/ quarterly/other (specify)] in arrear] *(If payable other than annually, consider amending [Condition 5(a) of the “Terms and Conditions of the Notes”, if applicable])*
- (ii) Interest Payment Date(s): [[●][ and [●]] in each year up to and including the Maturity Date / [specify other]
- (iii) Fixed Coupon Amount(s): [●] per Calculation Amount
- (iv) Broken Amount(s): [[●] per Calculation Amount, payable on the Interest

- Payment Date falling [in/on] [●]/ Not Applicable]
- (v) Day Count Fraction: [Actual/Actual (ICMA)]/[30/360]/[Actual/365(Fixed)]
- (vi) Determination Date(s): [●] in each year  
*[Insert interest payment dates except where there are long or short periods. In these cases, insert regular interest payment dates] (NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
14. Reset Note Provisions: [Applicable/Not Applicable]
- (i) Initial Rate of Interest: [●] per cent. per annum payable in arrear [on each Interest Payment Date]
- (ii) First Margin: [+/-][●] per cent. per annum
- (iii) Subsequent Margin: [[+/-][●] per cent. per annum] [Not Applicable]
- (iv) Interest Payment Date(s): [●] [and [●]] in each year up to and including the Maturity Date
- (v) Fixed Coupon Amount up to (but excluding) the First Reset Date: [[●] per Calculation Amount][Not Applicable]
- (vi) Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]][Not Applicable]
- (vii) First Reset Date: [●]
- (viii) Second Reset Date: [●]/[Not Applicable]
- (ix) Subsequent Reset Date(s): [●] [and [●]]
- (x) Relevant Screen Page: [●]
- (xi) Mid-Swap Rate: [Single Mid-Swap Rate/Mean Mid-Swap Rate]
- (xii) Mid-Swap Maturity: [●]
- (xiii) Day Count Fraction: [30/360]/[Actual/Actual (ICMA)]/[Actual/365 (Fixed)]
- (xiv) Determination Dates: [●] in each year
- (xv) Business Centre(s): [●]
- (xvi) Calculation Agent: [●]
15. Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Specified Period(s)/Specified Interest Payment Dates:
- (ii) Business Day Convention:  Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention
- (iii) Additional Business Centre(s):
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined:  Screen Rate Determination/ISDA Determination
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):
- (vi) Screen Rate Determination:
- Reference Rate:  month  *[[currency]* LIBOR / EURIBOR
  - Interest Determination Date(s):  Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period  
 First day of each Interest Period  
 Second day on which the TARGET 2 System is open prior to the start of each Interest Period
  - Relevant Screen Page:   
*(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions approximately)*
- (vii) If ISDA Determination:
- Floating Rate Option:
  - Designated Maturity:
  - Reset Date:
- (viii) Margin(s):  +/-  per cent. per annum
- (ix) Minimum Rate of Interest:  per cent. per annum
- (x) Maximum Rate of Interest:  per cent. per annum
- (xi) Day Count Fraction:  Actual/Actual (ISDA) or Actual/Actual Actual/365 (Fixed)  
 Actual/365 (Sterling)

Actual/360  
 30/360 or 360/360 or Bond Basis  
 30E/360 or Eurobond Basis  
 30E/360 (ISDA)  
*(see Condition 5(b)(iv) for alternatives)*

16. Zero Coupon Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price: [●]
- (iii) Day Count Fraction in relation to Early Redemption amounts: [30/360]  
 [Actual/360]  
 [Actual/365]

**PROVISIONS RELATING TO REDEMPTION**

17. Notice periods for Condition 7(b): Minimum period: [ ] days  
 Maximum period: [ ] days
18. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) and method, if any, of calculating of such amount(s): [[●] per Calculation Amount/Sterling Make-Whole Redemption Amount/Non-Sterling Make-Whole Redemption Amount/Not Applicable]
- (iii) Redemption Margin: [[ ] per cent./Not Applicable]
- (iv) Reference Bond: [[ ] / FA Selected Bond/Not Applicable]
- (v) Quotation Time: [[ ] /Not Applicable]
- (vi) If redeemable in part:
- (a) Minimum Redemption Amount: [●]
- (b) Maximum Redemption Amount: [●]
- (vii) Notice period: Minimum period: [ ] days  
 Maximum period: [ ] days
19. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-*

*paragraphs of this paragraph)*

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) and method, if any, of calculating of such amount(s): [●] per Calculation Amount
- (iii) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days

- 20. Final Redemption Amount: [●] per Calculation Amount
- 21. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default: [As per Condition [●]/ [●] per Calculation Amount]

### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

- 22. (i) Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on not less than 60 days' notice given at any time]/[only upon an Exchange Event].]  
*(This option is suitable for TEFRA D)*  
  
*(The 'exchange upon 60 days' notice' option should not be expressed to be applicable if the Specified Denomination in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000].")*  
  
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.] *(This option is suitable for TEFRA D)*  
  
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] *(This option is suitable for TEFRA C)*  
  
[Book-entry form registered Notes (Interbolsa Notes)]  
  
[Book-entry form bearer Notes (Interbolsa Notes)]
- (ii) New Global Note: [Yes/No]
- 23. Additional Financial Centre(s): [Not Applicable/[ ]]  
  
*(Note that this item relates to the place of payment and not Interest Period end dates to which sub-paragraph 15(iii) relates)*

24. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes. As the Notes have more than 27 coupons payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No]

**THIRD PARTY INFORMATION**

[*Relevant third party information*] has been extracted from [*specify source*]. [Each of the/The] Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of [ISSUER]:

[Signed on behalf of Banco Espírito Santo, S.A. (acting through its London branch)]

By: .....  
*Duly authorised*

By: .....  
*Duly authorised*



## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

Listing and admission to trading: [Not Applicable]/[Application [has been/is expected to be]made by the Issuer (or on its behalf) for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Regulated Market of the Luxembourg Stock Exchange with effect from [●].]

### 2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated ]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

*[insert details]] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].*

[Each of [defined terms] is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]

*[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. - Amend as appropriate if there are other interests]

*[N.B. When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive]*

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer [●]

(See “Use of Proceeds” wording in Prospectus - if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

[(ii)] Estimated net proceeds: [●]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii)] Estimated total expenses: [●] (Expenses are required to be broken down into each principal intended “use” and presented in order of priority of such “uses”).]

## 5. YIELD (Fixed Rate Notes only)

Indication of yield: [●]

Calculated as [include details of method of calculation in summary form] on the Issue Date.]

## 6. HISTORIC INTEREST RATES (Floating Rate Notes only)

[Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].] [Not Applicable]

## 7. OPERATIONAL INFORMATION

(i) ISIN Code: [●]

(ii) Common Code: [●]

(iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)/LCH Clearnet, S.A., identification number [ ]\*]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): [●]/[Not Applicable]

(vi) Deemed delivery of clearing system notices for; the purposes of Condition 14: Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

---

\* For Interbolsa Notes only.

- (vii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “Yes” simply means that the Notes are intended upon issue to be deposited with one of Euroclear Bank SA/NV and/or Clearstream Banking, *société anonyme* [(together, the “ICSDs”)] as common safe-keeper [(and registered in the name of a nominee of one of the ICSDs acting as common safe-keeper,)]*[include this text for Registered Notes]* and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “No” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of Euroclear Bank SA/NV and/or Clearstream Banking, *société anonyme* [(together, the “ICSDs”)] as common safe-keeper [(and registered in the name of a nominee of one of the ICSDs acting as common safe-keeper,)]*[include this text for Registered Notes]*. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[Note that the designation “yes” simply means that the Notes are intended upon issue to be registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as a securities settlement system, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[Include this text if “yes” is selected and the Notes are Interbolsa Notes]*

## 8. DISTRIBUTION

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names and addresses of Managers and [Not applicable/*give details*]

underwriting commitments:

- (iii) Date of Subscription Agreement: [Not applicable/*give details*]
- (iv) Stabilising Manager (if any): [Not applicable/*give details*]
- (v) If non-syndicated, name and address of relevant Dealer: [Not Applicable/*give name and address*]
- (vi) Total commission and concession: [ ] per cent. of the Aggregate Nominal Amount
- (vii) Non exempt Offer: [Not applicable] [An offer of the Notes may be made by the Managers [, [*insert names of financial intermediaries receiving consent (specific consent)*]] (the **Initial Authorised Offerors**) [and any additional financial intermediaries who have or obtain the Issuer's consent to use the Prospectus in connection with the Non exempt Offer and who are identified on the Bank's website at www.bes.pt as an Authorised Offeror] (together [with any financial intermediaries granted General Consent], being persons to whom the issuer has given consent, the **Authorised Offerors**) other than pursuant to Article 3(2) of the Prospectus Directive in Portugal and Luxembourg (the **Public Offer Jurisdictions**) during the period from [*specify date*] until [*specify date or a formula such as "the Issue Date" or "the date which falls [ ] Business Days thereafter"*] (the **Offer Period**). See further Paragraph 9.]  
  
*(N.B. Consider any local regulatory requirements necessary to be fulfilled so as to be able to make a non-exempt offer in relevant jurisdictions. No such offer should be made in any relevant jurisdiction until those requirements have been met. Non- exempt offers may only be made into jurisdictions in which the base prospectus (and any supplement) has been notified/passported.)*
- (viii) General Consent: [Not Applicable][Applicable]
- (ix) Other conditions to consent: [Not Applicable][*Add here any other conditions to which the consent given is subject*].

## 9. TERMS AND CONDITIONS OF THE OFFER

*(Delete whole section if sub-paragraph 8(vii) above is specified to be Not Applicable because there is no Non exempt Offer)*

- (i) Offer Price: [Issue Price/Not applicable/specify]
- (ii) Conditions to which the offer is [Not applicable/*give details*]

subject:

- (iii) Description of the application process: [Not applicable/*give details*]
- (iv) Details of the minimum and/or maximum amount of application: [Not applicable/*give details*]
- (v) Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants: [Not applicable/*give details*]
- (vi) Details of the method and time limits for paying up and delivering the Notes: [Not applicable/*give details*]
- (vii) Manner in and date on which results of the offer are to be made public: [Not applicable/*give details*]
- (viii) Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: [Not applicable/*give details*]
- (ix) Whether tranche(s) have been reserved for certain countries: [Not applicable/*give details*]
- (x) Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made: [Not applicable/*give details*]
- (xi) Amount of any expenses and taxes specifically charged to the subscriber or purchaser: [Not applicable/*give details*]
- (xii) Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place. The Authorised Offerors identified in paragraph 8 above.

## **ANNEX**

### **Summary of the Notes**

*[To be prepared for each issue of Notes with a denomination of less than EUR 100,000]*

## APPLICABLE FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of at least €100,000 (or its equivalent in another currency).*

[Date]

**[BES FINANCE LTD./BANCO ESPÍRITO SANTO, S.A.  
(acting through its [head office]/[Madeira branch]/  
[Cayman Islands branch]/[London branch]/[Luxembourg branch])**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
[Guaranteed by Banco Espírito Santo, S.A.  
[acting through London branch]]<sup>3</sup>  
under the €20,000,000,000  
Euro Medium Term Note Programme**

### PART A - CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “Terms and Conditions”) set forth in the Prospectus dated 17th July, 2013 [and the supplement(s) to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Prospectus”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer [, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplement[s] to the Prospectus] [has/have] been published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) [and] [[is] [are] available for viewing at [address]].]

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus (or equivalent) with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “Terms and Conditions”) set forth in the Prospectus dated [original date] which are incorporated by reference in the Prospectus dated [current date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus dated [current date] [and the supplement[s] to the Prospectus dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Prospectus”) including the Terms and Conditions incorporated by reference in the Prospectus. Full information on the Issuer [, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated [current date] [as so supplemented]. Copies of the Prospectus [and the supplement[s] to the Prospectus] [has/have] been published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) [and] [[is/are] available for viewing at [address]].]

The expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

---

<sup>3</sup> Delete as appropriate.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[In respect of Notes issued by BES Finance Ltd. which have a maturity of less than one year, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. (i) Series Number: [●]
- (ii) Tranche Number: [●]
- (iii) Date on which the Notes will be consolidated and form a single Series: [Not Applicable]/[The Notes will be consolidated and form a single series with *[identify earlier Tranche(s)]* on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below, which is expected to occur on or about *[date]*.]
2. Specified Currency or Currencies: [●]
3. Aggregate Nominal Amount:
  - Series: [●]
  - Tranche: [●]
4. Issue Price of Tranche: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
5. (i) Specified Denominations: [●] [and integral multiples of [●] in excess thereof up to and including [●]. No notes in definitive form will be issued with a denomination above [●]]

*(N.B. Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive.)*

*(Note - where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:*

*“[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”*

- (ii) Calculation Amount: [●]

*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note, there must be a common factor in the case of two or more Specified Denominations.)*



6. (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●]/[Issue Date]/[Not Applicable]
7. Maturity Date: *[Fixed rate - specify date/Floating rate where the Interest Period and date(s) are adjusted or any other rate where the Interest Period end date(s) are adjusted - Interest Payment Date falling in or nearest to [specify month and year]]*
8. Interest Basis: [[●] per cent. Fixed Rate]  
[[ ] month [LIBOR/EURIBOR]]+/- [●] per cent. Floating Rate]  
[[ ] per cent. Fixed Rate until [ ], then calculated in accordance with paragraph 14 below]/[Reset Notes]  
[Zero Coupon]  
(further particulars specified below)
9. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●] per cent. of their nominal amount
10. Change of Interest Basis: [Not Applicable/For the period from (and including) the Interest Commencement Date, up to (but excluding) [●] paragraph [13/15] applies and for the period from (and including) [●], up to (and including) the Maturity Date, paragraph [13/15] applies]
11. Put/Call Options: [Investor Put]  
[Issuer Call]  
[Not Applicable]  
(further particulars specified below)
12. [(i)] Status of the Notes: [Senior/Subordinated]
- [(ii)] Status of the Guarantee: [Senior/Subordinated]<sup>4</sup>
- [(iii)] Date [Board] approval for issuance of Notes [and Guarantee] obtained: [●] [and [●], respectively]]  
*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)*

---

<sup>4</sup> Delete as appropriate.

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

13. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [●] per cent. per annum payable in arrear [on each Interest Payment Date]
  - (ii) Interest Payment Date(s): [[●] [ and [●]] in each year up to and including the Maturity Date /*specify other*]
  - (iii) Fixed Coupon Amount(s): [●] per Calculation Amount
  - (iv) Broken Amount(s): [[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/Not Applicable]
  - (v) Day Count Fraction: [Actual/Actual (ICMA)] / [30/360] /*[Actual/365 (Fixed)]*
  - (vi) Determination Date(s): [●] in each year
14. **Reset Note Provisions** [Applicable/Not Applicable]
- (i) Initial Rate of Interest: [●] per cent. per annum payable in arrear [on each Interest Payment Date]
  - (ii) First Margin: [+/-][●] per cent. per annum
  - (iii) Subsequent Margin: [[+/-][●] per cent. per annum] [Not Applicable]
  - (iv) Interest Payment Date(s): [●] [and [●]] in each year up to and including the Maturity Date
  - (v) Fixed Coupon Amount up to (but excluding) the First Reset Date: [[●] per Calculation Amount][Not Applicable]
  - (vi) Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]][Not Applicable]
  - (vii) First Reset Date: [●]
  - (viii) Second Reset Date: [●]/[Not Applicable]
  - (ix) Subsequent Reset Date(s): [●] [and [●]]
  - (x) Relevant Screen Page: [●]
  - (xi) Mid-Swap Rate: [Single Mid-Swap Rate/Mean Mid-Swap Rate]
  - (xii) Mid-Swap Maturity: [●]
  - (xiii) Day Count Fraction: [30/360]/*[Actual/Actual (ICMA)]/[Actual/365 (Fixed)]*

- (xiv) Determination Dates:  in each year
- (xv) Business Centre(s):
- (xvi) Calculation Agent:
15. Floating Rate Note Provisions  [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period(s)/ Specified Interest Payment Dates:
- (ii) Business Day Convention:  [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention]
- (iii) Additional Business Centre(s):
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined:  [Screen Rate Determination/ISDA Determination]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):
- (vi) Screen Rate Determination:
- Reference Rate:  [ ] month  [[currency] LIBOR / EURIBOR]
  - Interest Determination Date(s):  [Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period]
  - [First day of each Interest Period]
  - [Second day on which the TARGET 2 System is open prior to the start of each Interest Period]
  - Relevant Screen Page:
- (vii) If ISDA Determination:
- Floating Rate Option:
  - Designated Maturity:
  - Reset Date:
- (viii) Margin(s):  [+/-]  per cent. per annum

- (ix) Minimum Rate of Interest: [●] per cent. per annum
- (x) Maximum Rate of Interest: [●] per cent. per annum
- (xi) Day Count Fraction: [Actual/Actual (ISDA) or Actual/Actual Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 or 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA)]  
(See 5(b)(iv) for alternatives)

16. Zero Coupon Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price: [●]
- (iii) Day Count Fraction in relation to Early Redemption amounts and late payment: [30/360] [Actual/360] [Actual/365]

**PROVISIONS RELATING TO REDEMPTION**

17. Notice periods for Condition 7(b): Minimum period: [ ] days  
Maximum period: [ ] days

18. Issuer Call: [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) and method, if any, of calculating of such amount(s): [[●] per Calculation Amount/Sterling Make-Whole Redemption Amount/Non-Sterling Make-Whole Redemption Amount/Not Applicable]
- (iii) Redemption Margin: [[ ] per cent./Not Applicable]
- (iv) Reference Bond: [[ ] / FA Selected Bond/Not Applicable]
- (v) Quotation Time: [[ ]/Not Applicable]
- (vi) If redeemable in part:
  - (a) Minimum Redemption Amount: [●]
  - (b) Maximum Redemption [●]

Amount:

- (vii) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days
19. Investor Put: [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount: [●] per Calculation Amount
- (iii) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days
20. Final Redemption Amount: [●] per Calculation Amount
21. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default: [As per Condition [●]/ [●] per Calculation Amount]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. (i) Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on not less than 60 days' notice given at any time]/[only upon an Exchange Event].]  
*(This option is suitable for TEFRA D)*
- (The 'exchange upon 60 days' notice' option should not be expressed to be applicable if the Specified Denomination in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000].")*
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.] *(This option is suitable for TEFRA D)*
- [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] *(This option is suitable for TEFRA C)*
- [Book-entry form registered Notes (Interbolsa Notes)]
- [Book-entry form bearer Notes (Interbolsa Notes)]
- (ii) New Global Note: [Yes/No]
23. Additional Financial Centre(s): [Not Applicable/[ ]]
- (Note that this item relates to the place of payment and*

*not Interest Period end dates to which sub-paragraph 15(iii) relates)*

24. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No]
25. U.S. Selling Restrictions: [Reg.S Compliance Category 2; TEFRA C/TEFRA D/TEFRA not applicable]

**THIRD PARTY INFORMATION**

[[*Relevant third party information*] has been extracted from [*specify source*]. [Each of the/The] Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading]

By: .....

By: .....

*Duly authorised*

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and admission to trading: [Not Applicable]/[Application [has been/is expected to be] made by the Issuer (or on its behalf) for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Regulated Market of the Luxembourg Stock Exchange with effect from [●].]
- (ii) Estimate of total expenses relating to admission to trading: [●]

### 2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

*[insert details]* by *[insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms]*.

[Each of *[defined terms]* is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]

*(The above disclosure should reflect the rating allocated to Notes issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Bank is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. – *Amend as appropriate if there are other interests*]

*[When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive]*

### 4. YIELD *(Fixed Rate Notes only)*

Indication of yield: [●]/[Not Applicable]

**5. HISTORIC INTEREST RATES** (*Floating Rate Notes only*)

[Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].] [Not Applicable]

**6. OPERATIONAL INFORMATION**

- (i) ISIN Code: [●]
- (ii) Common Code: [●]
- (iii) Any clearing system(s) other than Euroclear Bank S.A./ N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*/LCH Clearnet, S.A., identification number [ ]\*]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [●]/[Not Applicable]
- (vi) Deemed delivery of clearing system notices for the purposes of Condition 14: Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.
- (vii) Intended to be held in a manner which would allow Eurosystem eligibility: [[Yes. Note that the designation “Yes” simply means that the Notes are intended upon issue to be deposited with one of Euroclear Bank SA/NV and/or Clearstream Banking, *société anonyme* [(together, the “ICSDs”)] as common safe-keeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “No” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of Euroclear Bank SA/NV and/or Clearstream Banking, *société anonyme* [(together, the “ICSDs”)] as common safe-keeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being

---

\* For Interbolsa Notes only.



satisfied that Eurosystem eligibility criteria have been met.]

[Note that the designation “yes” simply means that the Notes are intended upon issue to be registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as a securities settlement system, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[Include this text if “yes” is selected and the Notes are Interbolsa Notes]*

## **7. DISTRIBUTION:**

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/*give names*]
- (iii) Date of Subscription Agreement: [ ]
- (iv) Stabilising Manager (if any): [Not Applicable/*give name*]
- (v) If non-syndicated, name and address of relevant Dealer: [Not Applicable/*give name*]

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Note cleared by LCH Clearnet, S.A. the clearing system operated at Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários S.A., each global Note and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange or other relevant authority (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue. If not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other information which shall, to the extent so specified, complete the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global Note and definitive Note and will be incorporated into and applicable to each Interbolsa Note (as defined below). Reference should be made to “Form of the Notes” above for the form of the Final Terms which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Banco Espírito Santo, S.A. (the “Bank”), or BES Finance Ltd. (“BES Finance” and, together with the Bank in its capacity as an issuer of Notes, the “Issuers” and each an “Issuer”) as specified in the applicable Final Terms constituted, except in the case of Interbolsa Notes (as defined below), by a Trust Deed dated 3rd February, 1997 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “Trust Deed”) made between the Issuers, the Bank in its capacity as guarantor of Notes issued by BES Finance (in such capacity, the “Guarantor”) and The Bank of New York Mellon (formerly J.P. Morgan Trustee and Depository Company Limited and Chase Manhattan Trustees Limited) (the “Trustee”, which expression shall wherever the context permits include all other persons or companies for the time being acting as trustee under the Trust Deed). Interbolsa Notes are constituted by entries in the individual securities accounts opened by Noteholders with the Affiliate Members of Interbolsa (as defined below).

References herein to the “Notes” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note, units of each Specified Denomination in the Specified Currency;
- (ii) definitive Notes issued in exchange for a global Note;
- (iii) any global Note; and
- (iv) Notes held through *Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.* (“Interbolsa”) (each an “Interbolsa Note”). Interbolsa Notes will only be issued by the Bank acting through its head office, and will not be issued by BES Finance.

References herein to “the Issuer” shall be to whichever of the Bank or BES Finance is specified as the Issuer in the applicable Final Terms.

The Notes (other than Interbolsa Notes) and the Coupons (as defined below) also have the benefit of an amended and restated Agency Agreement (the “Principal Agency Agreement”) dated 17th July, 2013 made among the Issuers, the Guarantor, the Trustee, The Bank of New York Mellon (formerly JPMorgan Chase Bank, N.A.) as issuing and principal paying agent and agent bank (the “Agent”, which expression shall include any successor agent specified in the applicable Final Terms) and the other paying agents named therein. The Interbolsa Notes have the benefit of the Principal Agency Agreement, as amended by an amendment agreement (the “Interbolsa Notes Agency Agreement”) dated 17th July, 2013 made among the

Bank, the Common Representative, the Agent, the Bank acting through its head office acting as paying agent in Portugal (the “Portuguese Paying Agent” which expression shall include any successor Portuguese Paying Agent) and the other paying agents named therein (together with the Agent, the Portuguese Paying Agent and the other paying agents named in the Principal Agency Agreement, the “Paying Agents”, which expression shall include any additional or successor paying agents) and of the common representative appointment agreement dated 17 July, 2013 such agreement as amended and/or supplemented and/or restated from time to time (the “Common Representative Appointment Agreement”) made between the Bank, as issuer, and Vieira de Almeida & Associados - Sociedade de Advogados R.L., as common representative of the holders of Interbolsa Notes (*representante comum dos obrigacionistas*) (the “Common Representative”).

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (“Coupons”) and in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Neither Interbolsa Notes nor global Notes have Coupons or Talons attached on issue.

The Final Terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to, endorsed on or incorporated into this Note which complete these Terms and Conditions for the purposes of this Note. References herein to the “applicable Final Terms” are to Part A of the Final Terms (or the relevant provisions thereof) attached to, endorsed on or incorporated into this Note.

The applicable Final Terms will state whether this Note is (i) a senior Note issued by BES Finance or the Bank and, where the Issuer is BES Finance, that such Note is guaranteed on an unsubordinated basis by the Bank, acting through its London branch, as described in Condition 4(i) (a “Senior Note”) or (ii) a dated subordinated Note issued by BES Finance or the Bank and, where the Issuer is BES Finance, guaranteed on a subordinated basis by the Bank, acting through its London branch, as described in Condition 4(ii) (a “Subordinated Note”). In each case, where a Note is issued by the Bank, the applicable Final Terms will state whether such Note is being issued by the Bank through its head office, its Madeira branch or its Cayman Islands branch or its London branch or its Luxembourg branch.

Any reference to “Noteholders” or “holders” in relation to any Notes shall mean (i) in the case of bearer Notes other than Interbolsa Notes, the holders of the global Notes and definitive Notes and shall, in relation to any Notes represented by a global Note, be construed as provided below or (ii) in the case of Interbolsa Notes, each person shown in the book-entry records of a financial institution, which is licensed to act as a financial intermediary under the Portuguese Securities Code (“*Código dos Valores Mobiliários*”) (the “Portuguese Securities Code”) and which is entitled to hold control accounts with Interbolsa on behalf of their customers (and includes any depositary banks appointed by Euroclear and/or Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and/or Clearstream, Luxembourg) (each such institution an “Affiliate Member of Interbolsa”), as having an interest in the principal amount of the Interbolsa Notes. Any reference herein to “Couponholders” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

The Trustee acts for the benefit of the holders of the Notes, other than Interbolsa Notes, and for the Couponholders, all in accordance with the provisions of the Trust Deed. The holders of Interbolsa Notes shall at all times be entitled, by means of an Extraordinary Resolution, to appoint and dismiss a Common Representative to act as their common representative, as further described in Condition 22.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Principal Agency Agreement, the Interbolsa Notes Agency Agreement and the Common Representative Appointment Agreement are available for inspection at the specified office of each of the Trustee (being as at 17th July, 2013 at One Canada Square, London E14 5AL), the Agent and the Paying Agents. If the Notes are to be listed on the Official List of the Luxembourg Stock Exchange or admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*). In the case of bearer Notes other than Interbolsa Notes, the Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Principal Agency Agreement and the applicable Final Terms which are applicable to them. In the case of Interbolsa Notes, the Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Principal Agency Agreement, to the extent amended by the Interbolsa Notes Agency Agreement and the applicable Final Terms which are applicable to them.

Words and expressions defined in the Trust Deed or the Principal Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Principal Agency Agreement, the Principal Agency Agreement will prevail in respect of Interbolsa Notes and the Trust Deed will prevail in all other cases and, in the event of inconsistency between the Trust Deed or the Principal Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

Where the Bank is acting as an Issuer through its head office or its Madeira branch or its Cayman Islands branch or its London branch or its Luxembourg branch in relation to the relevant Notes as specified in the applicable Final Terms, all references in these Terms and Conditions to the Bank shall be deemed to be references to the Bank acting through its head office or the branch specified therein. Where the Bank is acting as Guarantor in relation to Notes issued by BES Finance, as indicated in the applicable Final Terms, all references in these Terms and Conditions to the Bank shall be deemed to be references to the Bank acting through its London branch.

## **1. Form, Denomination, Title and Transfer**

The Notes other than Interbolsa Notes are in bearer form. Interbolsa Notes are in book-entry form (*forma escritural*) and can be either registered Notes (*nominativas*) (in which case Interbolsa, at the Issuer's request can ask the Affiliate Members of Interbolsa for information regarding the identity of the Noteholders and transmit such information to the Issuer) or bearer Notes (*ao portador*) (in which case Interbolsa cannot inform the Issuer of the identity of the Noteholders), as specified in the applicable Final Terms. Definitive Notes shall be serially numbered, and in the currency (the "Specified Currency") and the denomination(s) (the "Specified Denomination(s)") specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Senior Note or a Subordinated Note, as indicated in the applicable Final Terms.

This Note may (i) bear interest calculated by reference to one or more fixed rates of interest (such Note, a "Fixed Rate Note"), (ii) bear interest calculated by reference to, in the case of an initial period, an initial fixed rate of interest and, thereafter, the applicable fixed rate of interest that has been determined pursuant to the reset provisions contained in these Terms and Conditions, by reference to a mid swap rate for the Specified Currency (such Note, a "Reset Note"), (iii) bear interest calculated by reference to one or more floating rates of interest (such Note, a "Floating Rate Note"), (iv) be issued on a non-interest bearing basis and be offered and sold at a discount to its nominal amount (such Note, a "Zero Coupon Note") or (v) be a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, and if applicable Talons for further Coupons unless they are Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes (except Interbolsa Notes) and Coupons will pass by delivery. The Issuer, the Bank (where the Issuer is BES Finance), the Trustee and any Paying Agent may deem and treat the bearer of any such Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note (including Notes issued in new global note (“NGN”) form, as specified in the applicable Final Terms) held on behalf of Euroclear S.A./ N.V. (“Euroclear”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Bank (where the Issuer is BES Finance), the Trustee and any Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Note shall be treated by the Issuer, the Bank (where the Issuer is BES Finance), the Trustee and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the Trust Deed and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly. Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg and/or Interbolsa shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Bank (where the Issuer is BES Finance), the Trustee (except in respect of references to Interbolsa), the Common Representative (in respect of references to Interbolsa only) and the Agent or specified in the applicable Final Terms.

Title to the Interbolsa Notes will be evidenced by book-entries in accordance with the Portuguese Securities Code and the regulations issued by *Comissão do Mercado de Valores Mobiliários* (Portuguese Securities Market Commission, the “CMVM”), by Interbolsa or otherwise applicable thereto. Each person shown in the book-entry records of financial institutions, which are licensed to act as financial intermediaries and which are entitled to hold control accounts with Interbolsa on behalf of their customers and which include any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg (each such institution an “Affiliate Member of Interbolsa”), as having an interest in the Interbolsa Notes shall be the holder of the principal amount of the Interbolsa Notes recorded.

Title to the Interbolsa Notes is subject to compliance with all rules, restrictions and requirements applicable to the activities of Interbolsa.

One or more certificates in relation to the Interbolsa Notes (each, a “Certificate”) will be delivered by the relevant financial intermediary through which Interbolsa Notes are held in individual securities accounts in respect of a registered holding of Interbolsa Notes upon the request by the

relevant Noteholder and in accordance with that financial intermediary's procedures pursuant to article 78 of the Portuguese Securities Code.

The Interbolsa Notes will be registered in the relevant control issue account of the Issuer with Interbolsa and will be held in control accounts by each Affiliate Member of Interbolsa on behalf of the Noteholders. Such control accounts will reflect at all times the aggregate number of Interbolsa Notes held in individual securities accounts opened with the Affiliate Members of Interbolsa by Noteholders, which are clients of the Affiliate Members of Interbolsa and include Euroclear and Clearstream, Luxembourg.

The person or entity registered in the relevant individual securities accounts of an Affiliate Member of Interbolsa book-entry registry of the *Central de Valores Mobiliários* (the "Book-Entry Registry" and each such entry therein, a "Book Entry") as the holder of any Interbolsa Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein).

The Issuer and the Paying Agents may (to the fullest extent permitted by applicable law) deem and treat the person or entity registered in the Book-Entry Registry as the holder of any Interbolsa Note and the absolute owner for all purposes. Proof of such registration is made by means of a Certificate issued by the relevant financial intermediary through which Interbolsa Notes are held in individual securities accounts pursuant to article 78 of the Portuguese Securities Code.

No Noteholder will be able to transfer Interbolsa Notes, or any interest therein, except in accordance with Portuguese law and regulations. Interbolsa Notes may only be transferred in accordance with the applicable procedures established by the Portuguese Securities Code and the regulations issued by the CMVM and Interbolsa.

## **2. Status of the Notes**

- (i) The Senior Notes and any relative Coupons are direct, unconditional, unsecured (subject A to the provisions of Condition 3) and unsubordinated obligations of the Issuer and rank and will rank *pari passu* with all present and future unsecured and unsubordinated obligations of the Issuer, without any preference among themselves by reason of priority of date of issue, currency of payment or otherwise, except for obligations given priority by law.
- (ii) Subordinated Notes and any relative Coupons are direct, unsecured obligations of the Issuer and rank and will rank *pari passu* among themselves and at least *par passu* with all other present and future dated subordinated obligations of the Issuer, save for those that have been accorded by law preferential rights.

In the event of the insolvency or winding up of the Issuer, the claims of the holders of the Subordinated Notes and any relative Coupons against the Issuer will be subordinated in right of payment to the claims of depositors and all other unsecured creditors (other than holders of Subordinated Indebtedness, if any) of the Issuer.

"Subordinated Indebtedness" means all indebtedness of the Issuer under the terms of which the right to payment of the person(s) entitled thereto is, or is expressed to be, subordinated, in the event of the winding up of the Issuer, to the right to payment of all unsubordinated creditors of the Issuer and so that for the purpose of this definition indebtedness shall include all liabilities, whether actual or contingent, under guarantees or indemnities.

In the event of liquidation, bankruptcy or analogous proceedings of the Issuer, no holder of Subordinated Notes (having a debt or a liability towards the Issuer) may exercise any set-off or other similar rights against any amounts held by the Issuer.

### 3. Negative Pledge

This Condition 3 shall apply only to Senior Notes and references to “Notes” shall be construed accordingly.

So long as any of the Notes remains outstanding (as defined in the Trust Deed or, in respect of Interbolsa Notes, as defined in the Principal Agency Agreement, as amended by the Interbolsa Notes Agency Agreement), neither the Issuer nor the Bank (where the Issuer is BES Finance) shall create or permit to be outstanding any mortgage, charge, lien, pledge or other similar encumbrance or security interest upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Indebtedness (as defined below) or any guarantee or indemnity given in respect of any Indebtedness, without, in the case of the creation of an encumbrance or security interest, at the same time and, in any other case, promptly granting to the Noteholders either, at the option of the relevant Issuer, an equal and rateable interest in the same or providing to the Noteholders such other security as either (i) (except in the case of Interbolsa Notes) the Trustee shall, in its absolute discretion, deem to be not materially less beneficial to the Noteholders or (ii) (in the case of any Notes, including Interbolsa Notes) as shall be approved by an Extraordinary Resolution (as described in Condition 15 and in the Trust Deed or, in respect of Interbolsa Notes, in the Principal Agency Agreement, as amended by the Interbolsa Notes Agency Agreement) of the Noteholders.

“Indebtedness” means any borrowings having an original maturity of more than one year in the form of or represented by bonds, notes, debentures or other securities (not comprising, for the avoidance of doubt preference shares or other equity securities) but excluding any Covered Bonds (as defined below):

- (i) where more than 50 per cent. in aggregate principal amount of such bonds, notes, debentures or other securities are initially offered outside the Portuguese Republic; and
- (ii) which with the consent of the Issuer or the Bank (where the Issuer is BES Finance), are, or are intended to be, listed or traded on any non-Portuguese domestic stock exchange, over-the-counter or other organised market for securities (whether or not initially distributed by way of private placing).

“Covered Bonds” means any mortgage-backed bonds and/or covered bonds or notes (*Obrigações Hipotecárias*) issued by the Bank, the obligations of which benefit from a special creditor privilege (“*privilégio creditório especial*”) as a result of them being collateralised by a defined pool of assets comprised of mortgage loans or other loans permitted by applicable Portuguese legislation to be included in the pool of assets and where the requirements for that collateralisation are regulated by applicable Portuguese legislation.

### 4. Status of the Guarantee

The Bank, acting through its London branch, has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment by BES Finance of the principal of, and interest on, the Notes issued by BES Finance and all other amounts payable under or pursuant to the Trust Deed.

The obligations of the Bank, acting through its London branch, under the Guarantee constitute:

- (i) in the case of Senior Notes issued by BES Finance, direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Bank and rank and will rank *pari passu* with all present and future unsecured (subject as aforesaid) and unsubordinated obligations (including those arising under deposits received in its banking business) of the Bank, except for obligations given priority by law; and

- (ii) in the case of Subordinated Notes issued by BES Finance, direct, unsecured obligations of the Bank but, in the event of the insolvency or liquidation of the Bank, subordinated in right of payment to the claims of depositors and all other unsecured creditors of the Bank (other than creditors in respect of indebtedness of the Bank which is subordinated to at least the same extent as the obligations of the Bank under its guarantee in respect of such Subordinated Notes).

In the event of liquidation, bankruptcy or analogous proceedings of the Bank, no holder of Subordinated Notes (having a debt or a liability towards the Bank) may exercise any set-off or other similar rights against any amounts held by the Bank.

## **5. Interest**

### **(a) *Interest on Fixed Rate Notes***

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date specified in the applicable Final Terms at the rate(s) per annum equal to the Rate(s) of Interest so specified in the applicable Final Terms. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date. For so long as any of the Fixed Rate Notes is represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. Interest on Fixed Rate Notes which are Interbolsa Notes will be paid to the Affiliate Members of Interbolsa for distribution by them to the accounts of entitled Noteholders in accordance with Interbolsa's usual rules and operating procedures.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, "Fixed Interest Period" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are either Interbolsa Notes or are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the Fixed Rate Notes; or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.



“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

“Determination Period” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) ***Interest on Reset Notes***

(i) ***Rates of Interest and Interest Payment Dates***

Each Reset Note bears interest:

- (A) from (and including) the Interest Commencement Date specified in the applicable Final Terms until (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;

- (B) from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (C) for each Subsequent Reset Period thereafter (if any), at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

payable, in each case, in arrear on the date(s) so specified in the applicable Final Terms on which interest is payable in each year (each an “Interest Payment Date”) (subject to adjustment as described in the second paragraph of Condition 5(a)) and on the Maturity Date if that does not fall on an Interest Payment Date. The Rate of Interest and the amount of interest (the “Interest Amount”) payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (B) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in Condition 5(a) and, for such purposes, references in the second and third paragraphs of Condition 5(a) to “Fixed Rate Notes” shall be deemed to be to “Reset Notes” and Condition 5(a) shall be construed accordingly.

In these Terms and Conditions:

“**First Margin**” means the margin specified as such in the applicable Final Terms;

“**First Reset Date**” means the date specified in the applicable Final Terms;

“**First Reset Period**” means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

“**First Reset Rate of Interest**” means, in respect of the First Reset Period and subject to Condition 5(b)(ii), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Margin;

“**Initial Rate of Interest**” has the meaning specified in the applicable Final Terms;

“**Mid-Market Swap Rate**” means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the applicable Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

“**Mid-Market Swap Rate Quotation**” means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

“**Mid-Swap Floating Leg Benchmark Rate**” means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

“**Mid-Swap Rate**” means, in relation to a Reset Determination Date and subject to Condition 3(b)(ii), either:

- (i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,  
which appears on the Relevant Screen Page; or
- (ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards) ) of the bid and offered swap rate quotations for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date,  
which appear on the Relevant Screen Page,  
  
in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent;

“**Rate of Interest**” means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

“**Reset Date**” means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable), in each case as adjusted (if so specified in the applicable Final Terms) in accordance with Condition 5(a) as if the relevant Reset Date was an Interest Payment Date;

“**Reset Determination Date**” means, in respect of the First Reset Period, the second Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

“**Reset Period**” means the First Reset Period or a Subsequent Reset Period, as the case may be;

“**Second Reset Date**” means the date specified in the applicable Final Terms;

“**Subsequent Margin**” means the margin specified as such in the applicable Final Terms;

“**Subsequent Reset Date**” means the date or dates specified in the applicable Final Terms;

“**Subsequent Reset Period**” means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date; and

“**Subsequent Reset Rate of Interest**” means, in respect of any Subsequent Reset Period and subject to Condition 5(b)(ii), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Margin.

(ii) *Fallbacks*

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the Rate of Interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of this Condition 5(b)(ii) “**Reference Banks**” means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

(iii) *Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount*

The Calculation Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the Issuer, the other Paying Agents and any stock exchange or other relevant authority on which the relevant Reset Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day (where a “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London) thereafter.

(iv) *Determination or Calculation by Trustee or by a designated bank*

If for any reason the Calculation Agent defaults in its obligation to determine the First Reset Rate of Interest, a Subsequent Reset Rate of Interest or to calculate any Interest Amount in accordance with this Condition 5(b), then (A) (except in respect of Interbolsa Notes), the Trustee or (B) (in respect of Interbolsa Notes), any bank designated by the Common Representative for such purpose or, if no such bank is designated, a meeting of the Noteholders by Extraordinary Resolution, shall determine the First Reset Rate of Interest or

the Subsequent Reset Rate of Interest (as applicable) at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition but subject always to any terms specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee, designated bank or meeting of holders of Interbolsa Notes, as the case may be, shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

(v) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Calculation Agent or (except in respect of Interbolsa Notes) the Trustee, or (in the case of Interbolsa Notes), by or on behalf of the Common Representative, shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on the Issuer, the Bank (where the Issuer is BES Finance), the Agent, the Calculation Agent, the Trustee, the Common Representative, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Bank (where the Issuer is BES Finance), the Noteholders or the Couponholders shall attach to either the Calculation Agent or the Trustee or the Common Representative in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) ***Interest on Floating Rate Notes***

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "Interest Payment Date") which falls on the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). For so long as any of the Floating Rate Notes is represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. Interest on Floating Rate Notes which are Interbolsa Notes will be paid to the Affiliate Members of Interbolsa for distribution by them to the accounts of entitled Noteholders in accordance with Interbolsa's usual rules and operating procedures.

If a Business Day Convention is specified in the applicable Final Terms and (x) there is no numerically corresponding day in the calendar month on which an Interest Payment Date (or other date) should occur or (y) if any Interest Payment Date (or other date) would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(c)(i)(B), the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Lisbon in the case of Interbolsa Notes and any Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “TARGET2 System”) is open.

Interest will be paid subject to and in accordance with the provisions of Condition 6.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

- (A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and amended and updated as at the Issue Date of the first Tranche of Notes and as published by the International Swaps and Derivatives Association, Inc. (the “ISDA Definitions”)) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “Euro-zone”, “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Agent will be deemed to have discharged its obligations under Condition 5(c)(ii) in respect of the determination of the Interest Rate if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being LIBOR or EURIBOR as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at the Specified Time (as defined below) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of 0 above, no such quotation appears or, in the case of 0 above, fewer than three such offered quotations appear, in each case as at the Specified Time, the Agent or other person specified in the applicable Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks (as defined below) or, if the Reference Rate is EURIBOR, the principal Eurozone office of each of the Reference Banks, to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for deposits in the Specified Currency for the relevant Interest Period, if the Reference Rate is LIBOR, to leading banks in the London inter bank market as at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, to leading banks in the Euro zone inter bank market as at 11.00 a.m. (Brussels time), on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

For the purposes of this Condition 5(b)(ii)(B):

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market; and in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market, in each case selected by the Agent.



“Reference Rate” means, as specified in the Final Terms, (i) the London interbank offered rate (“LIBOR”) or (ii) the Euro-zone interbank offered rate (“EURIBOR”), as specified for each in the Final Terms.

“Relevant Financial Centre” means the financial centre specified as such in the Final Terms or if none is so specified: (i) in the case of a determination of LIBOR, London or (ii) in the case of a determination of EURIBOR, Brussels.

“Specified Time” means the time specified as such in the Final Terms or if none is so specified: (i) in the case of a determination of LIBOR, 11.00 a.m., or (ii) in the case of a determination of EURIBOR, 11.00 a.m., in each case in the Relevant Financial Centre.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are either Interbolsa Notes or are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the relevant Notes; or
- (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

- (v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the other Paying Agents and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) or by which they have been admitted to listing and notice thereof to be published in accordance

with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 14.

(vi) *Determination or calculation by Trustee or by a designated bank*

If for any reason the Agent at any time after the Issue Date defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with subparagraph (ii) above, then (A) (except in respect of Interbolsa Notes), the Trustee or (B) (in respect of Interbolsa Notes), any bank designated by the Common Representative for such purpose or, if no such bank is designated, a meeting of the Noteholders by Extraordinary Resolution, shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition but subject always to any Minimum Rate of Interest and/or Maximum Rate of Interest specified in the applicable Final Terms) it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee, designated bank or meeting of holders of Interbolsa Notes, as the case may be, shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent.

(vii) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Agent or (except in respect of Interbolsa Notes) the Trustee, or (in the case of Interbolsa Notes), by or on behalf of the Common Representative, shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on the Issuer, the Bank (where the Issuer is BES Finance), the Agent, the Trustee, the Common Representative, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Bank (where the Issuer is BES Finance), the Noteholders or the Couponholders shall attach to the Agent or the Trustee or the Common Representative in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(d) **Accrual of Interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date scheduled for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue, in the case of Notes other than Interbolsa Notes, as provided in the Trust Deed or, in the case of Interbolsa Notes, until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Interbolsa Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Interbolsa Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## **6. Payments**

### **(a) *Method of Payment***

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (ii) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

### **(b) *Payments subject to fiscal and other laws***

Payments in respect of the Notes will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

### **(c) *Presentation of definitive Notes and Coupons***

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia) and its possessions).

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “Long Maturity Note” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate

interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(d) *Payments in respect of global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant global Note, where applicable against presentation or surrender, as the case may be, of such global Note, if the global Note is not issued in new global note form, at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on such global Note either by the Paying Agent to which it was presented or, in the records of Euroclear and Clearstream, Luxembourg, as applicable.

The holder of a global Note (or, as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer or, as the case may be, the Bank (where the Issuer is BES Finance) will be discharged by payment to, or to the order of, the holder of such global Note (or, as provided in the Trust Deed, the Trustee) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Bank (where the Issuer is BES Finance) to, or to the order of, the holder of such global Note (or, as provided in the Trust Deed, the Trustee).

(e) *Payments in respect of Interbolsa Notes*

All payments on Interbolsa Notes (including without limitation the payment of accrued interest and principal) will be made by the Issuer to the Portuguese Paying Agent and (i) **if made in euro** will be (a) credited, according to the procedures and regulations of Interbolsa, by the Portuguese Paying Agent to the payment current-accounts held in the payment system of the Bank of Portugal by the Affiliate Members of Interbolsa whose control accounts with Interbolsa are credited with such Notes and thereafter (b) credited by such Interbolsa Affiliate Members from the aforementioned payment current-accounts to the accounts of the Noteholders or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; (ii) **if made in currencies other than euro** will be (a) transferred, on the payment date and according to the procedures and regulations applicable by Interbolsa, from the account held by the Portuguese Paying Agent in the Foreign Currency Settlement System (*Sistema de Liquidação em Moeda Estrangeira*), managed by Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Affiliate Members of Interbolsa, and thereafter (b) transferred by such Affiliate Members of Interbolsa from such relevant accounts to the accounts of the Noteholders of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer must provide Interbolsa with a prior notice of all payments in relation to the Interbolsa Notes and all necessary information for that purpose. In particular, such notice must contain:

- (a) the identity of the Portuguese Paying Agent responsible for the relevant payment; and
- (b) a statement of acceptance of such responsibility by the Portuguese Paying Agent.

Interbolsa shall notify the Portuguese Paying Agent of the amounts to be settled, which Interbolsa calculates on the basis of the balances and on the tax rules governing the accounts of the Affiliate Members of Interbolsa.

In the case of a partial payment, the amount held in the relevant current account of the Portuguese Paying Agent must be apportioned pro-rata between the accounts of the Affiliate Members of Interbolsa. After a payment has been processed, such process shall be confirmed to Interbolsa.

The holders of Interbolsa Notes are reliant upon the procedures of Interbolsa to receive payment in respect of Interbolsa Notes.

(f) ***Amounts payable in U.S. dollars (not applicable to Interbolsa Notes)***

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of this Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of this Note will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer or the Bank (where the Issuer is BES Finance).

(g) ***Payment Day***

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) in the case of Notes in definitive form only, the relevant place of presentation (if presentation is required);
  - (B) in respect of Interbolsa Notes only, Lisbon;

(C) any Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(h) ***Interpretation of Principal and Interest***

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or, except in the case of Interbolsa Notes, pursuant to any undertakings given in addition thereto or in substitution therefore pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Zero Coupon Notes, the Amortised Face Amount; and
- (vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or, except in the case of Interbolsa Notes, pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

**7. Redemption and Purchase**

(a) ***At Maturity***

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the Final Terms.

(b) ***Redemption for Tax Reasons***

The Notes may be redeemed at the option of the Issuer (after obtaining the consent of the Bank of Portugal wherever it is required in the case of Subordinated Notes) in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than maximum period of notice specified in the applicable Final Terms notice to the Agent, the Trustee (except in respect of Interbolsa Notes), the Common Representative (in respect of Interbolsa Notes) and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:



- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 or the Bank (where the Issuer is BES Finance) would be unable for reasons outside its control to procure payment by BES Finance and in making payment itself would be required to pay such additional amounts, in either case as a result of any change in, or amendment to, the laws or regulations of any Relevant Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes;
- (ii) the Issuer satisfies the Trustee (except in the case of Interbolsa Notes) or the Common Representative and the Portuguese Paying Agent (in the case of Interbolsa Notes) immediately prior to the giving of such notice as to (i) above; and
- (iii) such obligation cannot be avoided by the Issuer or the Bank (where the Issuer is BES Finance) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Bank (where the Issuer is BES Finance) would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition 7(b), the Issuer shall deliver to the Agent and the Common Representative (in respect of Interbolsa Notes) or to the Trustee (in respect of any Note other than an Interbolsa Note) to make available at their respective specified offices to the Noteholders (i) a certificate signed by two Directors of the Issuer or two Directors of the Bank (where the Issuer is BES Finance) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or the Bank (where the Issuer is BES Finance) has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee or, as the case may be, the Agent and the Common Representative, shall be entitled to accept any such certificate and (ii) an opinion delivered to it as sufficient evidence of the satisfaction of such conditions precedent in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

“Relevant Tax Jurisdiction” means (i), in respect of payments made by BES Finance, the Cayman Islands, (ii) in respect of payments where the Bank is specified in the applicable Final Terms as Issuer and is acting through its head office or its Madeira branch, Portugal; (iii) in respect of payments where the Bank is specified in the applicable Final Terms as Issuer and is acting through its Cayman Islands branch, the Cayman Islands; (iv) in respect of payments where the Bank is specified in the applicable Final Terms as Issuer and is acting through its Luxembourg branch, Luxembourg; and (v) in respect of payments made by the Bank, acting through its London branch, either as Issuer or as Guarantor where the Issuer is BES Finance, the United Kingdom.

(c) ***Redemption at the Option of the Issuer (Issuer Call)***

If Issuer Call is specified as being applicable in the Final Terms, the Issuer shall (after obtaining the consent of the Bank of Portugal whenever it is required in the case of Subordinated Notes), having given:

- (i) not less than the minimum period nor more than the maximum period of notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent and (except in respect of Interbolsa Notes) to the Trustee and (in respect of Interbolsa Notes) to the Common Representative,

(which notices shall be irrevocable), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than a Higher Redemption Amount, in each case as may be specified in the applicable Final Terms.

If "Sterling Make-Whole Redemption Amount" is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be equal to the higher of (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed or (ii) the principal amount outstanding of the Notes to be redeemed multiplied by the price, as reported to the Issuer by the Financial Adviser, at which the Gross Redemption Yield on such Notes on the Reference Date is equal to the Gross Redemption Yield (determined by reference to the middle market price) at the Quotation Time specified in the applicable Final Terms on the Reference Date of the Reference Bond, plus the Redemption Margin, all as determined by the Financial Adviser.

If "Non-Sterling Make-Whole Redemption Amount" is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be an amount calculated by the Agent equal to the higher of (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed or (ii) the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Note (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on an annual basis at the Reference Bond Rate, plus the Redemption Margin.

In this Condition 7(c):

"FA Selected Bond" means a government security or securities selected by the Financial Adviser as having an actual or interpolated maturity comparable with the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the remaining term of the Notes;

"Financial Adviser" means a financial adviser selected by the Issuer;

"Gross Redemption Yield" means, in respect of a security, the gross redemption yield for such security, expressed as a percentage and calculated by the Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper Formulae for Calculating Gilt Prices from Yields page 5, Section One: Price/Yield Formulae Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date (published 08/06/1998 and updated on 15/01/2002 and 16/03/2005 (as amended and supplemented from time to time)) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) or on such other basis as the Issuer may approve;

"Redemption Margin" shall be as set out in the applicable Final Terms;

"Reference Bond" shall be as set out in the applicable Final Terms or shall be the FA Selected Bond;

"Reference Bond Price" means, with respect to any date of redemption, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

"Reference Bond Rate" means, with respect to any date of redemption, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such date of redemption;

"Reference Date" will be set out in the relevant notice of redemption;

"Reference Government Bond Dealer" means each of five banks selected by the Issuer, or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

"Reference Government Bond Dealer Quotations" means, with respect to each Reference Government Bond Dealer and any date for redemption, the arithmetic average, as determined by the Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the applicable Final Terms on the Reference Date quoted in writing to the Agent by such Reference Government Bond Dealer; and

"Remaining Term Interest" means, with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined on the basis of the rate of interest applicable to such Note from and including the date on which such Note is to be redeemed by the Issuer pursuant to this Condition.

All notifications, opinions, determinations, certifications, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Agent, shall (in the absence of negligence, wilful default or bad faith) be binding on the Issuer, the Agent, the Paying Agents and all Noteholders and Couponholders.

In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"), be selected (i) individually by lot, in the case of Redeemed Notes represented by definitive Notes, (ii) in accordance with the rules of Euroclear and/ or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a global Note and (iii) in accordance with the rules of Interbolsa, in the case of Redeemed Notes that are Interbolsa Notes. In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

(d) ***Redemption at the Option of the Noteholders (Investor Put)***

If Investor Put is specified as being applicable in the Final Terms (provided that Investor Put may not be specified if this is a Subordinated Note), upon the holder of any Note giving to the Issuer in

accordance with Condition 14 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “Eurobond Put Notice”) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is an Interbolsa Note, to exercise the right to require redemption of this Note the holder of this Note must, during normal business hours on a day falling within the notice period, deliver to the Portuguese Paying Agent a Certificate and a duly completed and signed notice of exercise in the form obtainable from the specified office of the Portuguese Paying Agent (an “Interbolsa Notes Put Notice”, each Interbolsa Notes Put Notice or Eurobond Put Notice being a “Put Notice”) and in which the holder of the Notes must specify a bank account or, if payment is required to be made by cheque, an address to which payment is to be made under this Condition.

(e) ***Early Redemption Amounts***

For the purpose of paragraph (b) above and Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the “Amortised Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“RP” means the Reference Price specified in the applicable Final Terms;

“AY” means the Accrual Yield expressed as a decimal; and

“y” is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the

Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

(f) ***Purchases***

The Issuer, the Bank (where the Issuer is BES Finance) or any of its Subsidiaries (as defined in the Principal Agency Agreement) may (after obtaining the consent of the Bank of Portugal whenever it is required in the case of Subordinated Guaranteed Notes) at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Bank (where the Issuer is BES Finance), surrendered to any Paying Agent for cancellation or, in the case of Interbolsa Notes, cancelled by Interbolsa following receipt by Interbolsa of notice thereof by the Portuguese Paying Agent.

(g) ***Cancellation***

All global Notes and definitive Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons attached thereto or surrendered therewith at the time of redemption). All global Notes and definitive Notes so cancelled and the global Notes and definitive Notes purchased and cancelled pursuant to paragraph (f) above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

All Interbolsa Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or the Bank (where the Issuer is BES Finance) or any of its Subsidiaries will forthwith be cancelled, by Interbolsa following receipt by Interbolsa of notice thereof by the Portuguese Paying Agent, and accordingly such Interbolsa Notes may not be held, reissued or resold and shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 15 or the Principal Agency Agreement, as amended by the Interbolsa Notes Agency Agreement.

(h) ***Late payment on Zero Coupon Notes***

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph 7(a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph 7(e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) the fifth day after the date on which the full amount of the moneys payable has been received by the Agent or (except in the case of Interbolsa Notes) the Trustee or (in the case of Interbolsa Notes) the Portuguese Paying Agent and notice to that effect has been given to the Noteholders either in accordance with Condition 14 or individually.

## 8. Taxation

All payments of principal and interest in respect of the Notes and Coupons by BES Finance or the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Relevant Tax Jurisdiction as defined in Condition 7(b) or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, BES Finance or the Bank will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (i) the Noteholder or Couponholder of which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Relevant Tax Jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; and/or
- (ii) where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and/or
- (iii) in the case of bearer Notes other than Interbolsa Notes, the Noteholder or Couponholder of which would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; and/or
- (iv) in the case of Interbolsa Notes, to, or to a third party on behalf of, a Noteholder or Couponholder in respect of whom the information and documentation (which may include certificates) required in order to comply with Portuguese Decree-Law 193/2005 of 7th November, 2005, and any implementing legislation, is not received before the Income Payment Date or which does not comply with the formalities in order to benefit from tax treaty benefits, where applicable; and/or
- (v) in the case of Interbolsa Notes, to, or to a third party on behalf of, a Noteholder or Couponholder resident for tax purposes in the Republic of Portugal or any political subdivision or any authority thereof or therein having power to tax or a resident in a tax haven jurisdiction as defined in Order 150/2004, of 13th February, 2004 (*Portaria do Ministro das Finanças e da Administração Pública no 150/2004*) as amended from time to time, issued by the Portuguese Minister of Finance and Public Administration, with the exception of central banks and governmental agencies of those blacklisted jurisdictions, or a non-resident legal entity held, directly or indirectly, in more than 20 per cent. by entities resident in the Republic of Portugal; and/or
- (vi) in the case of Interbolsa Notes, to, or to a third party on behalf of, (i) a Portuguese resident legal entity subject to Portuguese corporation tax with the exception of entities that benefit from a Portuguese withholding tax waiver or from Portuguese income tax exemptions, or (ii) a legal entity not resident in Portugal acting with respect to the holding of the Notes through a permanent establishment in Portugal; and/or
- (vii) in the case of bearer Notes other than Interbolsa Notes, where presentation of the Note or Coupon is required, presented for payment more than 30 days after the Relevant Date except

to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day, assuming that day to have been a Payment Day (as defined in Condition 6).

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or (other than in the case of Interbolsa Notes) the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## **9. Prescription**

The global Notes, definitive Notes and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 9 or Condition 6(c) or any Talon which itself would be void pursuant to Condition 6(c).

Claims for principal and interest in respect of the Interbolsa Notes shall become void unless the relevant Certificates are surrendered within 20 years and five years respectively of the Relevant Date.

## **10. Events of Default**

(A) This Condition 10(A) applies only to Senior Notes and in this Condition 10(A) references to “Notes” shall be construed accordingly.

If any one or more of the following events (each an “Event of Default”) shall occur and be continuing:

- (i) default is made in the payment in the Specified Currency of any principal or interest due in respect of the Notes or any of them and such default continues, in the case of principal, for a period of five Portuguese Business Days or, in the case of interest, for a period of 10 Portuguese Business Days; or
- (ii) the Issuer or the Bank (where the Issuer is BES Finance) fails to perform or observe any of its other obligations in respect of the Notes or, in respect of Notes other than Interbolsa Notes, under the Trust Deed and (except where, (a) for Notes other than Interbolsa Notes, in the opinion of the Trustee, or (b) for Interbolsa Notes, in the opinion of the Common Representative, such default is not capable of remedy where no such continuation or notice as is hereinafter referred to will be required) such failure continues for the period of 30 days (or such longer period as the Trustee (in respect of Notes other than Interbolsa Notes) or the Common Representative (in respect of Interbolsa Notes), may permit) after notice has been given to the Issuer or, as the case may be, the Bank requiring the same to be remedied; or
- (iii) the repayment of any indebtedness owing by the Issuer or by the Bank (where the Issuer is BES Finance) is accelerated by reason of default and such acceleration has not been rescinded or annulled, or the Issuer or the Bank (where the Issuer is BES Finance) defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any indebtedness or in the honouring of any guarantee or indemnity in respect of any indebtedness provided that no such event shall constitute an Event of Default unless the indebtedness whether alone or when aggregated with other

indebtedness relating to all (if any) other such events which shall have occurred shall exceed U.S.\$10,000,000 (or its equivalent in any other currency or currencies) or, if greater, an amount equal to 1 per cent. of the Bank's Shareholders' Funds; or

- (iv) any order shall be made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Bank (where the Issuer is BES Finance) (other than for the purpose of an amalgamation, merger or reconstruction approved (i) by the Trustee or by an Extraordinary Resolution of the Noteholders in the case of bearer Notes other than Interbolsa Notes or (ii) by an Extraordinary Resolution of the Noteholders in the case of Interbolsa Notes); or
- (v) the Issuer or the Bank (where the Issuer is BES Finance) shall cease to carry on the whole or substantially the whole of its business (other than for the purpose of an amalgamation, merger or reconstruction approved (i) by the Trustee or by an Extraordinary Resolution of the Noteholders in the case of bearer Notes other than Interbolsa Notes or (ii) by an Extraordinary Resolution (as described in Condition 15(b)) of the Noteholders in the case of Interbolsa Notes); or
- (vi) the Issuer or the Bank (where the Issuer is BES Finance) shall stop payment or shall be unable to, or shall admit inability to, pay its debts as they fall due, or shall be adjudicated or found bankrupt or insolvent by a court of competent jurisdiction or shall make a conveyance or assignment for the benefit of, or shall enter into any composition or other arrangement with, its creditors generally; or
- (vii) a receiver, trustee or other similar official shall be appointed in relation to the Issuer or the Bank (where the Issuer is BES Finance) or in relation to the whole or a substantial part of the assets of either of them or a temporary manager of the Bank is appointed by the Bank of Portugal or an encumbrancer shall take possession of the whole or a substantial part of the assets of the Issuer or the Bank (where the Issuer is BES Finance), or a distress or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part of the assets of either of them and in any of the foregoing cases it or he shall not be discharged within 60 days; or
- (viii) the Bank sells, transfers, lends or otherwise disposes of the whole or a major part of its undertaking or assets (including shareholdings in its Subsidiaries or associated companies) and such disposal is substantial in relation to the assets of the Bank and its Subsidiaries as a whole, other than selling, transferring, lending or otherwise disposing on an arm's length basis; or
- (ix) except where the Issuer has been substituted as principal debtor pursuant to Condition 18, the Issuer (where the Issuer is BES Finance) ceases to be a Subsidiary wholly owned and controlled, directly or indirectly, by the Bank; or
- (x) (where the Issuer is BES Finance) the Guarantee is terminated or shall cease to be in full force and effect,

then:

- (a) in respect of Notes other than Interbolsa Notes, the Trustee at its discretion may, and if so requested in writing by the holders of not less than 20 per cent. of the nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due



and repayable at their Early Redemption Amount (as described in Condition 7(e)) together with accrued interest (as provided in the Trust Deed) provided that, in the case of any such Events of Default other than those described in sub-paragraphs 0 and 0 above, the Trustee shall have certified to the Issuer that such Event of Default is in its opinion materially prejudicial to the interests of the Noteholders; or

- (b) in respect of any Interbolsa Notes, the Common Representative shall, if so requested in writing through a request addressed to it and to the Bank by the holders of not less than 20 per cent. of the nominal amount of the Notes then outstanding, or if so directed by an Extraordinary Resolution of the Noteholders, give notice to the Issuer (the “Acceleration Notice”) and to the Portuguese Paying Agent at the respective specified office, effective upon the date of receipt thereof by the Portuguese Paying Agent, that the Interbolsa Notes are, and they shall accordingly thereby forthwith become, immediately due and payable at the Early Redemption Amount (as described in Condition 7(e)) together with accrued interest (if any) to the date of repayment, without demand, protest or other notice of any kind.

As used above:

“Bank’s Shareholders’ Funds” means, at any relevant time, a sum equal to the aggregate of the Bank’s shareholders’ equity as certified by the Auditors (as defined in the Paying Agency Agreement) of the Bank by reference to the latest audited consolidated financial statements of the Bank; and

“Portuguese Business Day” means a day on which commercial banks are open for business in Lisbon.

- (B) This Condition 10(B) applies only to Subordinated Notes and in this Condition 10(B) references to “Notes” shall be construed accordingly.

If any one or more of the following events (each an “Event of Default”) shall occur:

- (i) default is made in the payment of any principal or interest due in respect of the Notes or any of them and such default continues, in the case of principal, for a period of five Portuguese Business Days (as defined in Condition 10(A)) or, in the case of interest, for a period of 10 Portuguese Business Days; or
- (ii) any order shall be made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Bank (where the Issuer is BES Finance) (other than for the purpose of an amalgamation, merger or reconstruction approved by the Trustee (except in the case of Interbolsa Notes) or by an Extraordinary Resolution of the Noteholders), then:
  - (a) in respect of Notes other than Interbolsa Notes the Trustee at its discretion may, and if so requested in writing by the holders of not less than 20 per cent. of the nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount (as described in Condition 7(e)) together with accrued interest (as provided in the Trust Deed); or
  - (b) in respect of any Interbolsa Notes, the Common Representative shall, if so requested in writing through a request addressed to it and to the Bank by the holders of not less than 20 per cent. of the nominal amount of the Notes then outstanding, or if so

directed by an Extraordinary Resolution of the Noteholders, give notice to the Issuer (the “Acceleration Notice”) and to the Portuguese Paying Agent at the respective specified office, effective upon the date of receipt thereof by the Portuguese Paying Agent, that the Interbolsa Notes are, and they shall accordingly thereby forthwith become, immediately due and payable at the Early Redemption Amount (as described in Condition 7(e)) together with accrued interest (if any) to the date of repayment, without demand, protest or other notice of any kind.

Notwithstanding the giving of any such notice that the Subordinated Notes are immediately due and repayable, the Issuer may only redeem such Notes with the prior approval of the Bank of Portugal.

*There can be no assurance that the Bank of Portugal will give its approval to any such redemption. Noteholders should be aware of the fact that the Bank of Portugal’s approval will depend on the capital adequacy of the Bank.*

#### **11. Replacement of global Notes, definitive Notes, Coupons and Talons**

Should any global Note, definitive Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced global Notes, definitive Notes, Coupons or Talons must be surrendered before replacements will be issued.

#### **12. Agent and Paying Agents**

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer and the Bank (where the Issuer is BES Finance) are entitled (with the prior written consent of the Trustee, save that such consent will not be required in respect of the Portuguese Paying Agent) to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/ or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange or admitted to listing by any relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority;
- (ii) there will at all times be maintained a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/ EC or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iii) there will at all times be a Paying Agent outside the United Kingdom and Portugal (including Madeira); and
- (iv) there will at all times be a Paying Agent in Portugal capable of making payment in respect of the Interbolsa Notes as contemplated by these terms and conditions, the Principal Agency Agreement, as amended by the Interbolsa Notes Agency Agreement and applicable Portuguese law and regulation.

In addition, the Issuer and the Bank (where the Issuer is BES Finance) shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 6(e)(b). Notice of any variation, termination, appointment or change in Paying Agents be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

### **13. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

### **14. Notices**

All notices regarding the Notes shall be published (i) in a leading English language daily newspaper of general circulation in London, (ii) if and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg and (iii) if the Notes are Interbolsa Notes, by registered mail, by publication in a leading newspaper having general circulation in Portugal (which is expected to be *Diário de Notícias*) or by any other way which complies with the Portuguese Securities Code and Interbolsa's rules on notices to investors, including the disclosure of information through the CMVM official website ([www.cmvm.pt](http://www.cmvm.pt)). It is expected that publication under (i) and (ii) above will be made in the *Financial Times* or any other daily newspaper in London (which, unless such Notice is given in respect of Interbolsa Notes only, shall be approved by the Trustee) and the *Luxemburger Wort* in Luxembourg, respectively. In addition, all notices regarding the Notes may be published on the Luxembourg Stock Exchange's web site ([www.bourse.lu](http://www.bourse.lu)). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or any other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all the required newspapers.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange or admitted to listing by another relevant authority, the rules of such stock exchange or other relevant authority permits), so long as the global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on such day as is specified in the applicable Final Terms after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg. However, all notices regarding Notes which are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange must be published in a daily newspaper of general circulation in Luxembourg which is expected to be the "Luxemburger Wort".

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same with the Portuguese Paying Agent in the case of Interbolsa Notes and by lodging the same, together

with the relative Note or Notes, with the Agent in the case of bearer Notes other than Interbolsa Notes. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

Any holder of an Interbolsa Note may give notice to the Portuguese Paying Agent and the Agent through Interbolsa in such manner as the Portuguese Paying Agent, the Agent and Interbolsa may approve for this purpose.

## **15. Meetings of Noteholders, Modification and Waiver**

### **(a) *Meetings in respect of Notes other than Interbolsa Notes***

This Condition 15(a) does not apply to Interbolsa Notes. The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the terms and conditions of the Notes, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or Noteholders holding not less than 5 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal on maturity or otherwise, modification of any Minimum Rate of Interest or Maximum Rate of Interest or altering the currency of payment of the Notes or Coupons, modification of the majority required to pass an Extraordinary Resolution or modification of the Trust Deed concerning this exception), the quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting one or more persons holding or representing not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trustee and the Issuer may agree, without the consent of the Noteholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Notes, the Coupons or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Coupons or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

The Trustee may also waive or authorise any breach or proposed breach of any of the provisions of the Trust Deed or any of these Terms and Conditions which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders.

In connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class and shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Bank (where the Issuer is BES Finance) or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

Nothing in these Terms and Conditions or the Trust Deed shall require the Trustee to have regard to the interests of Noteholders insofar as those interests arise by virtue of a holding of Interbolsa Notes. For the avoidance of doubt, without prejudice to any rights assumed under Notes which are not Interbolsa Notes, a holder of Interbolsa Notes shall neither, by virtue of such holding of Interbolsa Notes, count towards a quorum, nor be entitled to vote, in respect of a resolution to amend the Trust Deed.

(b) ***Meetings in respect of Interbolsa Notes***

The remainder of this Condition 15 applies only to Interbolsa Notes.

*Meetings*

Meetings of the holders of Interbolsa Notes may be convened to consider any matter affecting their interests, including the appointment or dismissal of the Common Representative and the sanctioning by Extraordinary Resolution of a modification of the terms and conditions of the Notes and are governed by the Portuguese Commercial Companies Code enacted by Decree-Law 262/86 of 2nd September, as amended, and by the Common Representative Appointment Agreement.

Such meetings may be convened by the Common Representative (if any) or, if no Common Representative has been appointed, or an appointed Common Representative fails to convene a meeting, by the chairman of the general meeting of shareholders of the Issuer, and shall be convened if requested by Noteholders holding not less than 5 per cent. in principal amount of the Notes for the time being outstanding.

The quorum required for a meeting convened to pass a resolution other than an Extraordinary Resolution will be any person or persons holding or representing Notes then outstanding, regardless of the principal amount thereof. The quorum required for a meeting convened to pass an Extraordinary Resolution will be a person or persons holding or representing at least 50 per cent. of the Notes then outstanding or, at any adjourned meeting, any person or persons holding or representing any of the Notes then outstanding, regardless of the principal amount thereof.

The number of votes required to pass a resolution other than an Extraordinary Resolution is a majority of the votes cast at the relevant meeting. The majority required to pass an Extraordinary Resolution is at least 50 per cent. of the principal amount of the Notes then outstanding or, at any adjourned meeting, two-thirds of the votes cast at the relevant meeting.

Resolutions passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting or have voted against the approved resolutions.

*Dismissal and substitution of the Common Representative*

The Noteholders may dismiss and substitute the Common Representative by means of a resolution passed for such purpose upon the terms and conditions of the Common Representative Appointment Agreement.

*Notification*

Any modification, abrogation, waiver or authorisation in accordance with this Condition 15 shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (Notices).

*Matters required to be approved by Extraordinary Resolution*

An Extraordinary Resolution will be required to effect any of the following:

- (i) to change any date fixed for payment of principal or interest in respect of the Notes, reduction of the amount of principal or interest due on any date in respect of the Notes or variation of the method of calculating the amount of any payment in respect of the Notes on redemption or maturity;
- (ii) to approve the modification or abrogation of any of the provisions of these Terms and Conditions;
- (iii) to approve any amendment of this definition;
- (iv) to waive or authorise any breach or proposed breach of any of these Terms and Conditions; and
- (v) to approve any other matter in respect of which these Terms and Conditions require an Extraordinary Resolution to be passed.

*Matters in the discretion of the Agent and the Issuer*

Except for those matters required to be approved by Extraordinary Resolution, the Agent, the Common Representative and the Issuer may agree, without the consent of the Noteholders, to:

- (i) any modification of the Notes which is not materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders and shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

**16. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon (the "Further Notes") and so that the same shall be consolidated and form a single Series with the outstanding Notes.

In the case of bearer Notes other than Interbolsa Notes, the Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series of bearer Notes other than Interbolsa Notes in certain circumstances where the Trustee so decides.

#### **17. Contracts (Rights of Third Parties) Act 1999**

This Condition applies if the Notes are governed by English law. No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

#### **18. Substitution**

In the case of Notes other than Interbolsa Notes, the Trustee may, without the consent of the Noteholders or the Couponholders but (in the case of Subordinated Notes) only with the prior consent of the Bank of Portugal, agree with the Issuer and the Bank (where the Issuer is BES Finance) to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor in respect of the Notes of either the Bank or another whollyowned Subsidiary of the Bank, subject to:

- (a) where the new principal debtor is a wholly-owned Subsidiary of the Bank, the Notes being unconditionally and irrevocably guaranteed by the Bank on the same basis as that on which they were guaranteed prior to the substitution (where, immediately prior to the substitution, the Issuer is BES Finance or (being a previous substitute under this Condition) another wholly- owned subsidiary of the Bank) or on an equivalent basis to that on which they would have been guaranteed immediately prior to the substitution had the Issuer been BES Finance (where immediately prior to the substitution, the Issuer is the Bank);
- (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and
- (c) certain other conditions set out in the Trust Deed being complied with.

Any such substitution shall be notified, if the Notes are listed on the Official List of the Luxembourg Stock Exchange or any other stock exchange, to such stock exchange and to the Noteholders in accordance with Condition 14.

#### **19. Enforcement**

In the case of Notes other than Interbolsa Notes, the Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Bank (where the Issuer is BES Finance) as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless:

- (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 20 per cent. in nominal amount of the Notes then outstanding; and
- (b) it shall have been indemnified to its satisfaction.

No Noteholder or Couponholder shall be entitled to take proceedings directly against the Issuer or the Bank (where the Issuer is BES Finance) unless the Trustee, having become bound to proceed in

accordance with the terms of the Trust Deed fails to do so within a reasonable time and such failure is continuing.

In the case of Interbolsa Notes, the Common Representative may at any time, or, if so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 20 per cent. in nominal amount of the Notes then outstanding, shall, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Notes.

## **20. Indemnification of Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from any obligation to take proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or the Bank (where the Issuer is BES Finance) without accounting for any profit resulting therefrom and to act as trustee for the holders of any other securities issued by the Issuer or the Bank (where the Issuer is BES Finance).

## **21. Governing law and submission to jurisdiction**

- (a) The Trust Deed (except clause 7 insofar as it relates to Subordinated Notes), the Principal Agency Agreement except, in respect of Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, bearer Notes other than Interbolsa Notes (except Condition 2(ii) in relation to the Bank only (whether in its capacity as issuer or guarantor), and Condition 4(ii)) and the Coupons (and any non-contractual obligations arising out of or in connection with the Trust Deed (except clause 7 insofar as it relates to Subordinated Notes), the Principal Agency Agreement except, in respect of Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, bearer Notes other than Interbolsa Notes (except Condition 2(ii) in relation to the Bank only (whether in its capacity as issuer or guarantor), and Condition 4(ii)) and the Coupons) are governed by, and shall be construed in accordance with, English law.

Interbolsa Notes, clause 7 of the Trust Deed (insofar as it relates to Subordinated Notes), the Principal Agency Agreement, in respect of the Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, the Common Representative Appointment Agreement and Condition 2(ii) in relation to the Bank only (whether in its capacity as issuer or guarantor) and Condition 4(ii) (and any non-contractual obligations arising out of or in connection with the Interbolsa Notes, clause 7 of the Trust Deed (insofar as it relates to Subordinated Notes), the Principal Agency Agreement, in respect of Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement and the Common Representative Appointment Agreement and Condition 2(ii) in relation to the Bank only (whether in its capacity as issuer or guarantor) and Condition 4(ii)) are governed by, and shall be construed in accordance with, Portuguese law. In each case, the application of such governing law shall be without prejudice to the applicability, under the conflicts of rules applicable in the relevant forum, in the light of such submission, of Cayman Islands law (in relation to matters concerning BES Finance) or Portuguese law (in relation to matters concerning the Bank as an Issuer or as a guarantor, as the case may be).

- (b) Each of BES Finance and the Bank agrees, for the exclusive benefit of the Trustee, the Noteholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Principal Agency Agreement except, in respect of Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, the bearer Notes other than Interbolsa Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with Trust Deed, the Principal Agency Agreement except, in respect of Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, the bearer Notes other than Interbolsa Notes and/or the



Coupons) and that accordingly any suit, action or proceedings (together referred to as “Proceedings”) arising out of or in connection with the Trust Deed, the Principal Agency Agreement except, in respect of Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, the bearer Notes other than Interbolsa Notes and/or the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Principal Agency Agreement except, in respect of Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, the bearer Notes other than Interbolsa Notes and/or the Coupons) may be brought in such courts.

The Bank agrees for the exclusive benefit of the Noteholders that the courts of Portugal are to have jurisdiction to settle any disputes which may arise out of or in connection with the Principal Agency Agreement, in respect of the Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, the Common Representative Appointment Agreement and/or the Interbolsa Notes and that accordingly any suit action or proceedings (together referred to as “Proceedings in Respect of Interbolsa Notes”) arising out of or in connection with the Principal Agency Agreement, in respect of the Interbolsa Notes to the extent amended by the Interbolsa Notes Agency Agreement, the Common Representative Appointment Agreement and/or the Interbolsa Notes (including any Proceedings in Respect of Interbolsa Notes relating to any non-contractual obligations arising out of or in connection with the Principal Agency Agreement, in respect of the Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, the Common Representative Appointment Agreement and/or the Interbolsa Notes) may be brought in such courts.

Each of BES Finance and the Bank hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings and Proceedings in respect of Interbolsa Notes (including any Proceedings and Proceedings in respect of Interbolsa Notes relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Principal Agency Agreement except, in respect of Interbolsa Notes to the extent amended by the Interbolsa Notes Agency Agreement, the bearer Notes other than Interbolsa Notes and/or the Coupons, the Principal Agency Agreement in respect of the Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, the Common Representative Appointment Agreement and/or the Interbolsa Notes) in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a judgment in any such Proceedings brought in the English courts or in the Portuguese courts, as the case may be, shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

To the extent permitted by law, nothing contained in this Condition shall limit any right to take Proceedings against BES Finance or the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

Each of the Issuers appoints the London branch of the Bank at its office in London for the time being (being as at 17th July, 2013 at 10 Paternoster Square, London EC4M 7AL) as its agent for service of process, and undertakes that, in the event of the London branch of the Bank ceasing so to act, it will appoint another person as its agent for service of process in England in respect of any Proceedings.

Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

## **22. Common Representative**

In the case of Interbolsa Notes, the holders of the Notes shall at all times be entitled to appoint and dismiss a Common Representative by means of a resolution and pursuant to the Common Representative Appointment Agreement. Upon the appointment of a new Common Representative by the holders of the Notes pursuant to this Condition, any previously appointed and dismissed

Common Representative will immediately cease its engagement and will be under the obligation immediately to transfer to the new Common Representative appointed by the holders of the Notes all documents and information then held by such Common Representative pertaining to the Notes.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the relevant Issuer for general financing requirements in the relevant Issuer's general corporate purposes, which include making a profit. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## BES FINANCE LTD.

### History

BES Finance was incorporated in the Cayman Islands (with registered number 69526) on 15th November, 1996 for an unlimited duration and with limited liability as an exempted company under the laws of the Cayman Islands.

The registered office of BES Finance is c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

### Directors

The Directors of BES Finance are:

<i>Name</i>	<i>Function within the Issuer</i>	<i>Function within the Guarantor</i>
Ricardo Espírito Santo Silva Salgado	Director	Director
Ricardo Abecassis Espírito Santo Silva	Director	Director
Amílcar Carlos Ferreira de Morais Pires	Director	Director
Isabel Maria Carvalho de Almeida	Director	Adviser to the Board of Directors
Jose Leal de Faria	Director	Director

The business address for all the above Directors is Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal. BES Finance has no employees or non-executive Directors.

BES Finance is not aware of any potential conflicts of interest between the duties to BES Finance of the persons listed above and their private interests or other duties.

BES has an Audit Committee which is responsible for all units within the BES Group, including BES Finance. The Audit Committee is composed of three non-executive directors qualified as independent: José Manuel Ruivo da Pena, Luís António Burnay Pinto de Carvalho Daun e Lorena and João de Faria Rodrigues.

BES Finance complies with its country's of incorporation corporate governance regime(s).

### Business

BES Finance is a wholly-owned subsidiary of Banco Espírito Santo, S.A. ("BES"). BES Finance has no subsidiaries. The objects for which BES Finance was established are unrestricted and include, pursuant to clause 3 of its Memorandum of Association, without limitation, "to carry on the business of a finance and investment company", "to receive monies on deposit or loan and to borrow or raise money in any currency with or without security", "to advance, deposit or lend money, securities and/or property", "to buy, sell, broke and deal in foreign exchange, bullion, specie, precious metal and minerals, and all other commodities", "to enter into currency and/or interest rate and any other type of swap agreements", "to act as promoters and entrepreneurs", "to exercise and enforce all rights and powers conferred by or incidental to the ownership of any shares, stock, obligations or other securities", "to purchase or otherwise acquire, to sell, exchange, surrender, lease, mortgage, charge, convert, turn to account, dispose of and deal with real and personal property and rights of all kinds", "to stand surety for or to guarantee, support or secure the performance of all or any of the obligations of any person, firm or company whether or not related or affiliated to the company in any manner", "to engage in or carry on any other lawful trade, business or enterprise".

## Capitalisation and Indebtedness

The existing issued ordinary shares of BES Finance are not listed on the Official List of the Luxembourg Stock Exchange or on any other stock exchange and are not dealt on any other recognised market.

Two Ordinary Shares were issued and fully paid when BES Finance was incorporated on 15th November, 1996. A further 24,998 Ordinary Shares were issued on 21st January, 1997. The share capital of BES Finance was subsequently redenominated in Euro and its authorised share capital increased by various special resolutions to its current level of €600,100,000 consisting of 100,000 Ordinary Shares of par value €1.00 each and 600,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A of a par value of €1,000 each. Up to 31st December, 2012, 403,003 Non-cumulative Guaranteed Step-Up Preference Shares Series A have been repurchased.

All issued Ordinary Shares are credited as fully paid and are held by BES as at the date of this Prospectus. Through its shareholding BES directly controls BES Finance. There are no other measures in place concerning such control.

No capital of BES Finance is under option or is agreed conditionally or unconditionally to be put under option.

The following table sets forth, at 31st December, 2012 the capitalisation of BES Finance. This table should be read in conjunction with the financial statements and notes thereto of BES Finance which are incorporated by reference into this Prospectus. Save as disclosed below there has been no material change in the capitalisation of BES Finance since 31st December, 2012.

(Expressed in thousand EUR)

	<u>31st December, 2012</u>	<u>31st December, 2011</u>
<b>Shareholder's Equity</b>		
<i>100,000 shares of EUR 1 par value each, fully authorised, subscribed and paid up</i>	100	100
Outstanding pref shares of EUR 1.00 par value each, fully authorised, subscribed and paid up	196,997	215,621
Retained earnings – prior	(124,259)	42,469
Reserves and other gains/ (losses) in equity instruments	153,399	146,143
Dividends distributed	(10,996)	(25,657)
Net Income	10,045	(141,063)
<b>Total Shareholder's Equity</b>	<b><u>225,286</u></b>	<b><u>237,613</u></b>
<b>Short term debt<sup>(1)</sup> (par value)</b>	502,663	134,750
<b>Long term debt<sup>(1)</sup> (par value)</b>	2,891,415	6,558,268
Long term borrowings <sup>(1)</sup> (par value)	2,891,415	6,558,268
Subordinated debt <sup>(1)</sup> (par value)	62,782	146,610
Corporate debt <sup>(1)</sup> (par value)	2,828,633	6,411,658
<b>Total short and Long term debt</b>	<b><u>3,394,078</u></b>	<b><u>6,693,018</u></b>

Notes:

(1) Short and Long term debt are included in the Issuer's financial statements, prepared in accordance with International Financial Reporting Standards, at amortized cost except for certain notes containing embedded derivatives which are at estimated market value or fair value hedge adjustments. These specific captions per the financial statements amount to EUR 551,351,857 and EUR 50,983,534, respectively.

### Subsequent Events:

- Since 31st December, 2012, the Company repurchased an additional EUR 5,000,000 preference shares, having booked a gain in Reserves and other gains/ (losses) in equity instruments (EUR 1,232,690).

- A dividend in the amount of EUR 12,031,652 (EUR 10,713,433 net of repurchased preference shares) was declared and was to be paid, regarding the outstanding preference shares (EUR 55.80 per share), in July 2013.

## Financial Information of BES Finance

The following tables present the balance sheet and statement of income of BES Finance for the years ended 31st December, 2012 and 2011 and the statement of cash flows of BES Finance for the periods ended 31st December, 2012 and 2011. The information for the years ended 31st December, 2012 and 2011 has been extracted without material adjustment from, and should be read in conjunction with, the audited financial statements of BES Finance for the years ended 31st December, 2012 and 2011, together with the notes thereto, all of which are incorporated by reference into this Prospectus.

	<i>(expressed in euro)</i>	
	<u>31st December, 2012</u>	<u>31st December, 2011</u>
<b>Assets</b>		
Deposits with banks	2,643,472	3,505,600
Financial assets held for trading	95,157,457	76,265,593
Loans and advances to banks	3,090,601,806	4,828,383,519
Derivatives for risk management purposes	3,722,505	13,279,027
<b>Total assets</b>	<b><u>3,192,125,240</u></b>	<b><u>4,921,433,739</u></b>
<b>Liabilities</b>		
Financial liabilities held for trading	95,579,268	55,256,659
Deposits from banks	79,339,728	68,436,510
Debt securities issued	2,727,995,736	4,407,083,477
Derivatives for risk management purposes	-	1,366,306
Subordinated debt	63,747,514	151,444,767
Other liabilities	177,204	233,025
<b>Total liabilities</b>	<b><u>2,966,839,450</u></b>	<b><u>4,683,820,744</u></b>
<b>Equity</b>		
Ordinary and preference shares	197,097,000	215,721,000
Other reserves and retained earnings	18,143,981	162,954,802
Profit for the year	10,044,809	(141,062,087)
<b>Total equity</b>	<b><u>225,285,790</u></b>	<b><u>237,612,995</u></b>
<b>Total liabilities and equity</b>	<b><u>3,192,125,240</u></b>	<b><u>4,921,433,739</u></b>

## BES Finance Ltd.

### Income statement

	<i>(expressed in euro)</i>	
	<u>31st December, 2012</u>	<u>31st December, 2011</u>
Interest and similar income	248,852,398	324,429,651
Interest expense and similar charges	235,974,139	305,141,476
Net interest income	12,878,259	19,288,175
Fee and commission expense	(37,734)	(62,659)
Net gains/(losses) from financial assets		

(expressed in euro)

	<u>31st December, 2012</u>	<u>31st December, 2011</u>
and liabilities at fair value through profit or loss	(4,004,426)	(6,711,799)
Net (losses)/gains from foreign exchange differences	(28,651)	(15,840,150)
Other operating income and expense	1,271,363	(137,717,463)
Operating income	10,078,811	(141,043,896)
General and administrative expenses	34,002	18,911
Operating expenses	34,002	18,911
<b>Profit for the year</b>	<b>10,044,809</b>	<b>(141,062,807)</b>

## **BES Finance Ltd.**

### **Statement of cash flows**

(expressed in euro)

	<u>31st December, 2012</u>	<u>31st December, 2011</u>
<b>Cash flows arising from operating activities</b>		
Interest received	344,765,119	369,395,722
Interest paid	(296,353,526)	(358,951,565)
Taxes and licences	(1,397)	(34,271)
Foreign currency exchange gains / (losses)	(28,651)	(15,840,150)
Other operating income and expenses	1,051,744	(138,628,556)
	<u>49,433,289</u>	<u>(144,058,820)</u>
<b>Changes in operating assets and liabilities</b>		
Loans and advances to banks	1,733,461,376	3,488,827,761
Short and long term debt	(1,694,884,594)	(1,774,849,317)
Subordinated debt	(83,824,618)	(1,273,325,282)
Financial assets and liabilities held for trading	16,152,407	(27,451,172)
Derivatives for risk management purposes	1,172,026	(558,734)
<b>Net cash flows from operating activities</b>	<u>21,059,886</u>	<u>268,584,436</u>
<b>Cash flows arising from financing activities</b>		
Repurchase preference shares	(11,375,675)	(240,332,527)
Dividends distributed	(10,996,339)	(25,656,952)
<b>Net cash flows from financing activities</b>	<u>(22,372,014)</u>	<u>(265,989,479)</u>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	(862,128)	2,594,957
Cash and cash equivalents at beginning of year	3,505,600	910,643
<b>Cash and cash equivalents at end of year</b>	<u>2,643,472</u>	<u>3,505,600</u>

### **Selected Financial Information of BES Finance**

The following table presents selected financial information of BES Finance for the years ended 31st December, 2012 and 2011.

**BES Finance Ltd.**

	<u><i>31st December, 2012</i></u>	<u><i>31st December, 2011</i></u>
<b>Total Assets</b>	3,192,125,240	4,921,433,739
<b>Total Liabilities</b>	2,966,839,450	4,683,820,744
<b>Total Equity</b>	225,285,790	237,612,995
<b>Total Liabilities and Equity</b>	<u>3,192,125,240</u>	<u>4,921,433,739</u>



## BANCO ESPÍRITO SANTO, S.A. AND BES GROUP

Banco Espírito Santo, S.A. (“BES” or the “Bank”) is a bank incorporated in Portugal (with commercial registry and tax payer number 500 852 367) on 26th September, 1990, for an unlimited duration, and with limited liability (*societies anonym*), under the provisions of Decree-Law no. 262/86, of 2nd September, 1986, as amended. As of 31st December, 2012, the share capital of BES was EUR 5,040,124,063.26, represented by 4,017,928,471 ordinary registered book-entry shares with no par value. BES’ activities are mainly governed by Decree-Law 298/92, of 31st December, 1992, as amended.

BES and its consolidated subsidiaries (together, the “BES Group” or the “Group”) offer a full range of banking and financial services, including deposit taking, lending, asset management, leasing and factoring, investment banking and brokerage services. As at 31st December, 2012, the BES Group operated 666 branches in Portugal (including 43 on-site branches resulting from partnerships with insurance agents under the *Assurfinance* programme) and 109 branches abroad (of which there were 26 in Spain, 41 in Angola, 33 in Libya and 2 in Cape Verde), 28 private banking centres (23 in Portugal, 4 in Spain and 1 in Angola) and 34 corporate centres (25 in Portugal, 7 in Spain and 2 in Angola). On a consolidated basis, the BES Group employed 9,944 people as of 31st December, 2012 (which represents an increase from 9,863 employees as of 31st December, 2011).

### 1. History

BES’ origins date from 1869, when José Maria do Espírito Santo e Silva, along with other investors, founded its predecessor bank in Lisbon. After the Second World War, BES became one of Portugal’s largest commercial banks under the direction and leadership of the Espírito Santo family. In 1975, virtually all institutions in the banking and insurance industries, including BES, were nationalised by the Portuguese government. The Espírito Santo family, deprived of its Portuguese base, began operations outside of Portugal, primarily in the financial services market.

In 1986, the Portuguese government embarked upon a privatisation programme, creating the conditions for the return of the Espírito Santo Group to Portugal. After banking activities were again opened to private initiative, the Espírito Santo Group, under a strategic partnership with Crédit Agricole S.A. (France) and supported by a core group of Portuguese shareholders, set up Banco Internacional de Crédito (“BIC”), thus marking the Espírito Santo Group’s return to Portugal. That same year, the Espírito Santo Group acquired Espírito Santo Sociedade de Investimento (the precursor of BES Investimento), with the participation of Union de Banques Suisses and Kredietbank (Luxembourg), among other financial institutions.

In 1991, BES (formerly incorporated in Portugal as BESCL) was re-privatised and ESFG and Crédit Agricole acquired stakes in its share capital. As of 30th March, 2013, ESFG and its subsidiaries held 37 per cent. of the voting rights in BES and consolidated BES in its financial statements, while Crédit Agricole holds a stake of 10.81 per cent of BES voting rights. The general public, including institutional investors, owned approximately 45 per cent. of BES’ ordinary shares as at 30th March, 2013. BES’ ordinary shares are listed on Euronext Lisbon.

Crédit Agricole is a shareholder of BES and is ESFG’s strategic partner in BES’ management and operations, particularly in connection with the development of products in the retail sector. To the best of BES’ knowledge, there are no written arrangements governing this relationship.

During the 1990s, BES’ business expanded both geographically and by type of activity as a result of several investments. In 1992, BES purchased Banco Industrial del Mediterráneo (later Banco Espírito Santo (Spain)) and expanded its activity in the Spanish market, where its presence was reinforced in 2000, following the acquisition of Benito y Monjardín and GES Capital.

In line with the internationalisation of its activities, in 2000, an important strategic partnership was established with the Bradesco Group in Brazil, leading to BES' acquisition of 3.25 per cent. of Banco Bradesco S.A. ("Bradesco" or "Banco Bradesco") and Bradesco's acquisition of 3 per cent. of BES. In addition, both groups established joint holdings in BES Investimento do Brasil and BES Securities in Brazil. Investments in the Americas reached the United States, where BES acquired Espírito Santo Bank, a bank mainly focused on private banking and directed to customers in Latin America, particularly in Brazil. In the same year, a strategic partnership was established in Portugal with Portugal Telecom, which led to the establishment of Banco BEST – Banco Electrónico de Serviço Total in 2001.

In August 2001, BES Angola (a financial institution based in Angola) was incorporated, and its activities were initiated, on 24th January, 2002. In 2003, BES sold 20 per cent. of BES Angola to the Angolan Group GeniGroup.

Within the scope of the BES Group's international expansion policy, in 2003 BES acquired Bank Espírito Santo International, Limited. In the same year, BES acquired 50 per cent. in Locarent, a rent-a-car business, through a strategic partnership with Caixa Geral de Depósitos ("CGD") and Serfingest, SGPS.

In 2004, Banco Espírito Santo, S.A. (Spain) and Hypovereinsbank ("HVB group") entered into an agreement for the acquisition of the total share capital of Banco Inversión (Spain) by Banco Espírito Santo, S.A. (Spain), a transaction that was authorised by the Bank of Spain at the beginning of 2005 and executed during that year.

In February 2005, BES increased its direct shareholding in the voting share capital of Banco Bradesco, S.A., from 3.56 per cent. to 6.74 per cent.

In October 2005, BES Investimento together with Concordia Sp z.o.o. ("Concordia"), a company based in Warsaw, Poland, that specialises in providing financial advisory services, established a strategic partnership for the incorporation of Concordia Espírito Santo Investment ("CESI"), a company that operates in the Polish market focusing on the provision of advisory services in project finance, mergers and acquisitions and other areas of corporate finance.

In February 2006, BES' Board of Directors decided to acquire a shareholding of 50 per cent. in Companhia de Seguros Tranquilidade-Vida and the sale of a 15 per cent. shareholding in Espírito Santo Companhia de Seguros, S.A., both transactions concluded on 27th June, 2006. Both companies changed their names to BES Vida, Companhia de Seguros ("BES Vida") and BES, Companhia de Seguros ("BES Seguros"), respectively.

In May 2007, BES announced the conclusion of a merger by incorporation of its Spanish subsidiary (Banco Espírito Santo (Spain)) into BES, with the objective of achieving greater operating efficiency through economies of scale and to increase activity in the Spanish corporate market.

In March 2008, BES Angola established a strategic partnership with Espírito Santo Activos Financeiros ("ESAF") termed "BESAACTIVE", the first fund management firm to operate in Angola. Also in March of 2008, ESFG entered into an agreement with Portugal Telecom to acquire 34 per cent. of the share capital of Banco BEST.

On 31st December, 2008, BES announced the conclusion of a merger by incorporation of Besleasing e Factoring, Instituição Financeira de Crédito, S.A, into BES.

In August 2009, the Bank announced the creation of AVISTAR SGPS, S.A. (the holding company concentrating BES' strategic holdings, namely in Portugal Telecom, S.A., EDP, S.A. and Banco Bradesco, S.A.) and BES Africa (the holding company for the Group's strategic interests in Africa).

BES Investments announced the expansion of its operations to the US by opening a branch in New York.

In November 2009, the Bank entered into an agreement to acquire 40 per cent. of the capital of Aman Bank for Commerce and Investment Stock Company (“Aman Bank”), a privately owned Bank in Libya with its registered office in Tripoli. This transaction was concluded in April 2010.

In December 2009, the Bank sold 24 per cent. of the share capital of BES Angola for U.S.\$375,000,000 and entered into an agreement with Banque Extérieure d’Algérie and Swicorp Ijar to set up a leasing company in Algeria, in which BES will have a 34 per cent. shareholding. Ijar Leasing, Algérie was incorporated in 2011.

In July 2010, BES opened BES Cabo Verde (“BESCV”), a universal service bank incorporated under Cape Verdean law. Also at this time, Espírito Santo Activos Financieros S.A. entered into an agreement to fully acquire Gespastor SGIIC, S.A., a fund management firm, through Espírito Santo Gestión, SGIIC, S.A. (“ES Gestión”).

On 6th August, 2010, the results of the stress tests carried out on BES by the Committee of European Banking Supervisors (“CEBS”) were disclosed. These results showed that BES met the relevant regulatory capital requirements.

In October 2010, BES África, SGPS entered into an agreement to acquire a 25.1 per cent. direct shareholding in Moza Banco (Mozambique) and to simultaneously subscribe for shares in the share capital of Moza Banco (Mozambique). This acquisition closed in January 2011. Also in October, the Mexican regulator, Comisión Nacional Bancaria y de Valores, authorised BES and BES Investimento to open a joint representation office in Mexico, the first time that Mexico has hosted a Portuguese financial institution.

In November 2010, BES Investimento was authorised to acquire a 50.1 per cent. shareholding in Execution Holdings Limited, an investment banking and international brokerage group headquarters in London.

On 28th April, 2011, BES informed the market that an agreement had been reached to sell approximately 78 million ordinary shares of Banco Bradesco SA to Cidade de Deus Companhia Comercial de Participações which represented as of that date 4.1 per cent. of the share capital of Banco Bradesco SA.

On 24th June, 2011, BES and China Development Bank Corporation signed a memorandum of understanding under which both banks established co-operation principles for developing future business. Following this, in September 2011, BES and China Development Bank Corporation signed an agreement for a 3 year mid/long-term credit facility in the amount of U.S.\$300 million.

On 25th August, 2011, BES informed the market about the disposal of 3.7 per cent. of a 5 per cent. stake it held in Saxo Bank A/S to TPG Capital, part of the TPG Group.

On 7th November, 2011, BES and Dagong Global Credit Rating Co., Ltd (a Chinese credit rating agency) signed an agreement for Dagong Global Credit Rating Co., Ltd to provide credit ratings to Banco Espírito Santo and Banco Espírito Santo do Oriente.

On 5th December, 2011, BES announced the conclusion of a share capital increase from EUR `3,499,999,998.00 to EUR 4,030,232,150.40. This share capital increase entailed the issuance of 294,573,418 new ordinary, registered and book-entry shares, with no par value, with an issuance price per share of EUR 1.80, and was made through contributions-in-kind comprising the securities

issued by BES, BES Investimento and BES Finance exchanged pursuant to exchange offers made to investors. This transaction generated a positive impact in a Core Tier 1 ratio.

## **Developments in 2012**

On 1st March, 2012, BES announced the global results of the third and last working phase of the Special Inspections Programme (“SIP”), established under the Stabilisation Programme agreed between the EU, the IMF and the Portuguese government. The purpose of this programme was validating the credit risk data used in the valuation of the financial strength of BES, through an independent valuation of its loan portfolios, the adequacy of its risk management policies and procedures, as well as confirming the calculation of its capital requirements for credit risk.

As in 2011, the SIP covered the eight largest Portuguese banking groups, including ESFG. The first two working phases were concluded and their results were published on 16th December, 2011. SIP’s third working phase was based on a prospective approach, with the objective of evaluating the adequacy of methodology and criteria used by banking groups in the financial projections that support evaluation of future solvency within the framework of stress test exercises.

Such evaluation concluded that the BES Group used clearly adequate methodology and criteria, the highest evaluation granted within SIP’s phase 3.

With regards to ratings, throughout 2012 BES’ ratings suffered the following adjustments:

- DBRS – on 31st January, 2012 there was a downgrading of BES’ senior long-term debt and deposit rating to “BBB (low)”, with negative trend, following the downgrade of the long-term rating of the Portuguese Republic from “BBB” to “BBB (low)”. BES’ short-term debt and deposits rating was downgraded from “R-2 (high)” to “R-2 (mid)”, with negative trend. On 5th December, 2012 BES’ ratings were reaffirmed and removed from review.
- Standard & Poor’s ratings agency, together with its affiliates (“S&P Ratings”) – on 14th February, 2012 there was a downgrading of BES’ long-term credit rating from “BB” to “BB-”, with negative outlook whilst its short-term credit rating was reaffirmed at “B” by S&P. This followed the downgrade of the Republic of Portugal’s sovereign long-term credit ratings from “BBB-” to “BB” and its short-term credit rating from “A-3” to “B” with negative outlook, the publishing of the Banking Industry Country Risk Assessment on Portugal, and the revision of the credit rating of other Portuguese banks by S&P Ratings. On 12th July, 2012 BES’ ratings were affirmed following the review of the implications of the capital increase concluded in May.
- Moody’s ratings agency, together with its affiliates (“Moody’s Ratings”) - on 15th February, 2012 following the downgrade of the Republic of Portugal’s sovereign rating from “Ba2” to “Ba3” Moody’s Ratings announced that it had begun a downwards revision of the ratings of the Portuguese banks. On 28th March, 2012, Moody’s Ratings concluded its review for the downgrade of the Portuguese banks. The long-term rating of BES was downgraded from “Ba2” to “Ba3” by Moody’s, the same level as the Portuguese sovereign rating. The standalone bank financial strength rating was downgraded to “E+” from “D-”

## **2. BES’ International Presence**

### *Spain*

In Spain, the BES Group has operations in corporate banking, private banking and affluent banking. The BES Group has also developed investment-banking activities in Spain, holding a leading position in the Spanish brokerage market and in mergers and acquisitions. Taking advantage of the

geographical proximity to Spain, the Group has an Iberian vision of the market, facilitating and promoting exports and direct investment by Portuguese companies in Spain, and by Spanish companies in Portugal.

### *Brazil*

The BES Group is present in Brazil through BES Investimento do Brasil, in which Banco Bradesco holds a 20 per cent. stake. BES Investimento do Brasil focuses its activity on the capital markets, risk management, proprietary trading, project finance, distribution of fixed income products, private equity and corporate finance. The BES Group's asset management activity in Brazil is conducted by BESAF – BES Ativos Financeiros, and its securities brokerage activity is conducted by BES Securities.

### *Angola*

In Angola, the BES Group conducts its activity through BES Angola (“BESA”), a bank incorporated under Angolan law that provides a global service to individual and corporate clients. BES Angola operates through a network of branches and sub-branches distributed in six provinces, and a private banking centre in Luanda.

In corporate banking, BESA is supported by two corporate centres in Luanda, focusing its activity on (i) establishing commercial partnerships of mutual added value with the large and medium-sized companies operating in Angola, namely by financing the investment projects or cash needs of these companies and providing technical and legal support; and (ii) supporting foreign companies and entrepreneurs (principally from Portugal, Spain, Brazil and Germany) that are expanding their activity into Angola. The BES Group's investment banking business has also been expanding through tracking business opportunities and arranging financing solutions in the areas of project and corporate finance.

In the asset management area, BESA ACTIF—Sociedade Gestora de Fundos de Investimento, the first fund management company in Angola, manages a closed-end real estate fund (and a second one is pending authorisation by the competent authorities), and BESA ACTIF—Sociedade Gestora de Fundos de Pensões markets an open-ended defined contribution pension fund called BESA Opções de Reforma fund.

BESA has been asserting its position as a reference bank in the Angolan market, where it stands out for its profitability and efficiency levels, as stated in the November 2010 KPMG report entitled “Analysis to the Angolan Banking sectors” while being actively engaged in society and participating in Angola's reconstruction process within the scope of its sustainability policy.

### *Cape Verde*

The activity of BES Cabo Verde is concentrated on the local corporate market, particularly the public sector and affiliates of Portuguese groups with economic interests in Cape Verde, and on the local affluent market.

The BES Cape Verde branch continues to operate, concentrating its activity on granting loans to non-resident entities.

### *Libya*

The BES Group operates in Libya through a 40 per cent. stake in Aman Bank, of which it has management control. Through its presence in Libya, the BES Group not only aims to provide support to its clients in that country but also to open access channels to the North African markets.

Libya is in a phase of consolidation following the fall of the previous regime, and Aman Bank stands in a good position to take advantage of growth opportunities in the country.

The Bank has suffered neither sanctions nor significant damage to its infrastructures, and so it continues to operate during the transition period.

#### *United Kingdom*

In London, Europe's main financial centre, BES operates through a branch which concentrates its activity in wholesale banking, namely syndicated credit transactions, leveraged finance operations and commodities structured trade finance and, in close co-operation with BES Investimento, in project finance operations. At the end of 2010, BES Investimento acquired a 50.1 per cent. stake in Execution Holding Limited an international investment banking group focusing on brokerage, research, mergers and acquisitions, corporate finance, corporate brokerage and equity capital markets. Through this acquisition, the BES Group fulfilled its intention to reinforce a presence in Europe's largest financial centre, while opening an access route to emerging markets such as China and India.

#### *France*

BES conducts its activity in France through Banque Espírito Santo et de la Vénétie, in which it has a 42.69 per cent. stake. The bank focuses its activity on corporate banking and the provision of financial services to Portuguese residents in France who are clients of BES in Portugal.

#### *United States*

Through Espírito Santo Bank, based in Miami, the BES Group conducts international private banking activities in the United States, where its main customers are the local Portuguese and Latin American communities. BES' New York branch focuses its activity in wholesale banking, mainly in the United States and Brazil. BES Investimento's New York branch distributes products in the core geographies, primarily in the areas of project finance and other structured finance activities, leveraging its Brazilian presence, strong positioning in the capital markets business in Iberia, and reference clients in the area of project finance. The BES Group's presence in New York gives it access to institutional investors in one of the world's main financial centres.

#### *Macao*

The BES Group is present in Macao through BES Oriente, whose main activity is to support the business operations developed by BES' clients in the region, while seeking to seize business opportunities leveraged by the expressed intent of the People's Republic of China to consider Macao as a platform for economic co-operation with Portuguese-speaking countries.

#### *Poland*

The BES Group has been present in Poland since 2005, the year of the foundation of Concordia Espírito Santo Investment, now known as Espírito Santo Investment Sp. Z.o.o., a BES subsidiary that specialises in advisory services in mergers and acquisitions. In 2008, BES Investimento expanded its activities in the country, opening a branch which provides brokerage services on the Warsaw Stock Exchange.

#### *Mozambique*

In January 2012, the Group acquired a 25.1 per cent. stake in Moza Banco, a Mozambican bank that opened for business in June 2008. Moza Banco focuses its activity on the corporate, private and

affluent banking segments. At the end of 2012 it had a network of 20 branches, the result of a recent expansion effort aimed at covering all the provinces in the country.

This acquisition reinforces the Group's presence in Africa and positions BES to take an active role in Mozambique's growth, both as a partner of its local business community and by providing support to Portuguese companies operating in the country. The Group is therefore able to offer its clients a wide range of financial products, namely trade finance, financing for investment projects, cash and saving management services, and trade transactions in the domestic and international markets.

#### *Venezuela*

The Group operates in Venezuela through the Banco Espírito Santo Venezuela branch ("BES Venezuela"), a universal services bank that opened to the public in January 2012. BES Venezuela focuses on the corporate, private and affluent banking segments, mainly targeting the large Portuguese community in the country as well as the Venezuelan companies that do business with Portugal.

The aim of the Group is to focus on the ever closer relations between Portugal and Venezuela. This aim is taking shape through the increasing presence of Portuguese companies in Venezuela as well as by the entry into various bilateral agreements.

#### *Luxembourg*

In January 2012, BES opened a branch in Luxembourg, an important international financial centre which hosts a large community of Portuguese residents. The main aim of this new unit is to serve the Portuguese community, but also the Group's international clients.

The new branch will concentrate its activity on the corporate, private and affluent banking segments, as well as in providing financial services to Portuguese residents in Luxembourg who are also BES clients in Portugal.

#### *Other countries*

The BES Group has representative offices in South Africa, Germany, Canada, China, Mexico and Switzerland, as well as partnerships with local banks, such as Banco delle Tre Venezie in Italy, Banque Marocaine du Commerce Extérieur in Morocco, and Banque Extérieure d'Algérie in Algeria.

### **3. Strategy**

The BES Group's main pillar for development and strategic differentiation lies in excellence of service and a permanent focus on the needs of each client, whether individual, corporate or institutional. With its differentiated value propositions, the BES Group offers a broad range of financial products and services that meet the specific needs of its clients.

Solid and stable management has enabled the development of a consistent strategy orientated towards a long-term vision and based on strategic partnerships, long-standing relationships with its various stakeholders and a core group of reference shareholders since the Bank's privatisation in 1991.

The Group's main strategic guidelines are:

- Strengthening its domestic positioning through the acquisition of new clients (both individual and corporate), reinforcement of the share-of-wallet in the current client base

(particularly in saving products) and the diversified offering of innovative products and services, supported by its cross-selling and cross-segment initiatives, such as “*bancassurance*” and “*assurfinance*” (in partnership with Companhia de Seguros Tranquilidade);

- Expansion of international activity by stronger positioning in the strategic triangle (Iberia, Brazil and Africa) and by expansion into new markets considered strategic and offering business opportunities;
- Support to Portuguese companies in the phase of international expansion through: (i) partnerships with local entities; (ii) trade missions with entrepreneurs to relevant countries; (iii) recognised know-how in trade finance, a business area in which the BES Group has consistently been a leader in Portugal, with a market share of 31 per cent. in 2012 (source: SWIFT) (2011: 28.8 per cent.); and (iv) dedicated teams and structures specialising in supporting companies in the process of international expansion (including the International Premium Unit, which has no equal in the Portuguese banking sector);
- Improvement of operating efficiency, maintaining the efficiency ratio below 50 per cent. and a prominent position within Iberia’s main financial institutions;
- Development of long-term strategic partnerships which are a fundamental link in the BES Group’s strategy. BES Group maintains an important strategic partnership with Crédit Agricole, one of its main shareholders under which it has established cross-selling platforms, namely in the area of *bancassurance*. BES also maintains a strategic joint venture with Banco Bradesco, a leading Brazilian bank and also a BES shareholder. Banco Bradesco holds a 20 per cent. stake in BES Investimento do Brasil, the BES Group’s investment banking unit in Brazil, and supports Banco Bradesco’s activity by sharing its knowledge of the Brazilian market – a key market in the Group’s strategy for international expansion; and
- Development of a sustainability strategy along the following dimensions: governance and ethics; corporate identity; innovation and entrepreneurship; financial inclusiveness; biodiversity and climate change; and responsible citizenship. These areas have been defined on the basis of shareholder consultation, the Group’s vision and activities and the trends for the financial sector.

### Short-term strategic priorities

BES has been implementing a broad range of initiatives to tackle the financial difficulties faced by the Portuguese economy and the challenges set by the Financial Assistance Programme. The Bank has highlighted the following short-term strategic priorities:

- **Deleveraging of balance sheet:** in the second half of 2010, the BES Group initiated an ambitious balance sheet deleveraging programme with the objective of reducing the loan to deposits ratio and reinforcing its financial strength. The successful implementation of this programme resulted in the reduction of the loan to deposits ratio from 198 per cent. in June of 2010 to 137 per cent. on 31st December, 2012;
- **Reinforcement of solvency ratios:** in December 2011 the Group concluded debt to equity exchanges viewing the reinforcement of its capital ratios. These operations allowed the BES Group to reach a Core Tier 1 ratio of 9.2 per cent. at year-end, above the Bank of Portugal’s requirements for that date. In May 2012, BES carried out a capital increase that made it one of the best capitalised banks in Europe while maintaining its strategic autonomy. In



December 2012, the Core Tier 1 ratio was 10.5 per cent. standing comfortably above the 10 per cent. required by the Bank of Portugal for the end of that year.

- **Prudent risk management:** in line with its traditionally prudent stance in financial management, BES Group increased provisioning during 2012: the reinforcement of provisions for credit, securities and other totalled EUR 1,199 million, while the balance of provisions reached 5.34 per cent. of gross loans at the end of 2012;
- **Sustainability of future returns:** through the growth of international business and through increased efficiency. Internationally, the strategic triangle (Iberia, Brazil and Africa) maintained an expressive contribution to the BES Group's results, compensating for the deceleration of domestic activity. Net income from the Group's operations in Africa, Brazil and Spain amounted to EUR 60.7 million at the end of the year, representing 69 per cent. of the international results. To increase efficiency, several cost reduction measures were implemented, especially in Portugal, where there was a net reduction of 35 branches between the end of 2011 and the end of 2012. Domestic costs dropped by 1.4 per cent. compared to the previous year.

#### 4. Key Strengths

BES' position in the banking industry is due to the following key strengths:

##### **A brand with more than 140 years of history**

With a history stretching back 143 years, the central goal of the BES Group's activity is to create value for shareholders, while seeking to meet the needs of its clients and ensure the professional fulfilment of its employees. Its first and foremost mission is to align a strategy of constant sustained reinforcement of its competitive position in the market with absolute respect for the interests and well-being of its clients and employees. BES is aware of its duty to actively contribute to the economic, social, cultural and environmental development of Portugal and of the communities among which it develops its activity.

With a presence in four continents, operations in 25 countries and employing approximately 9,900 people as at 31st December, 2012, the BES Group is currently the largest Portuguese listed bank in Portugal by market capitalisation (EUR 3.6 billion as of 31st December, 2012) and the second largest private-sector bank by total assets (EUR 83.7 billion as of 31st December, 2012).

BES is a unique case of organic growth in the Portuguese financial system that has steadily increased its average domestic market share from 8.5 per cent. when it was privatised in 1992 to 19.6 per cent. in 2012, benefiting from the development of a market approach based on a multispecialist model. A growth strategy based on solid brand recognition and strong commercial dynamics have made BES a reference in the domestic market, and in particular in the corporate segment with a 25 per cent. market share.

BES holds a significant position in a number of products and services, namely: trade finance, PPR's (Retirement Saving Plans), loans, asset management, leasing, factoring, balance sheet customer funds (client deposits and debt securities).

By adopting a set of measures and sustainable practices, which are a positive contribution to the development of BES and of the communities in which it operates, the BES Group seeks to achieve a balanced financial growth.

Consistency, depth and mainstreaming of the work that has been pursued over the last 5 years have granted the BES Group a leading role in sustainability in the financial sector of the Portuguese

economy. Its external visibility in terms of social responsibility and sustainable development is shown by BES' position in the list of financial companies that are referenced in Dow Jones Sustainability Indexes and FTSE4Good.

### **Stable core shareholder base and Management Team**

The BES Group has had a strong and stable core shareholder base since 1991. BESPARG, which holds 35.3 per cent. of BES' share capital, is owned by Espírito Santo Financial Group (73.6 per cent) and Crédito Agricole (26.4 per cent), which has been a partner of the ESFG since 1986. In addition, Crédito Agricole holds a direct shareholding in BES of 10.8 per cent. Moreover, the BES Group has strategic partnerships with Portugal Telecom and Banco Bradesco (Brazil). Banco Bradesco, through Bradport, and Portugal Telecom Group, owned 4.83 per cent. and 2.09 per cent., respectively, of BES' share capital. The free float was 47 per cent. Silchester International Investors LLP holds a 5.8 per cent. stake in BES, following the Capital increase.

The BES Group has had a stable management team since 1991. Mr. Ricardo Salgado has been the CEO since 1991 and Mr. Morais Pires has been the CFO since 2004. Most of the executive board members have been directors on BES' board for more than 10 years.

### **Prudent risk management**

Risk management and control play a fundamental role in the balanced and sustained growth of the BES Group. The BES Group seeks to optimise its risk/return profile across its various business lines while maintaining a prudent risk profile in terms of solvency, provisioning, liquidity and capital markets exposure. On-balance sheet customer funds amounted to EUR 44.8 billion as of 31st December, 2012 (EUR 44.1 billion as of 31st December, 2011), while total customer funds amounted to EUR 56.2 billion as of 31st December, 2012 (EUR 54.4 billion as of 31st December, 2011). In line with its prudent liquidity management policy, the BES Group actively promoted the diversification of its funding sources as well as investing in more liquid assets, while also seeking to increase the amount of eligible assets for rediscount with the European Central Bank ("ECB") and other central banks. The BES Group also actively manages its capital markets exposure, adjusting its portfolio strategy according to market conditions.

### **Clear and consistent internationalisation strategy**

BES is the most international of all the Portuguese private-sector banks and is present in 25 countries in four continents. The expansion of international activities has been crucial to offset the slowdown of domestic activity. In 2012, the international activity accounted for 29 per cent. of the consolidated net assets of the Group. The strategic triangle (Spain, Brazil and Africa) contributed 69 per cent. of total earnings generated by the Group's international units with EUR 60.7 million of net earnings.

The historic connection with Africa and South America, notably with Brazil, the internationalisation of national companies, the growing inter-dependence of economies and the large communities of Portuguese nationals established across various continents, have provided the basis for the international expansion of the BES Group.

The know-how acquired in the domestic market in corporate banking, investment banking and private banking allows the BES Group to export its skills and expertise to serve local customers and customers who do business on a transnational scale, namely by supporting the internationalisation of Portuguese companies. In this context, the major focus has been put on facilitating access to markets considered strategic, i.e., markets showing opportunities for business and where the BES Group has the capacity to provide support, either through a direct presence or through partnerships with local banks.

## **Operational efficiency**

As of 31st December, 2012, the BES Group had a cost-to-income ratio of 44.6 per cent. as compared to 57.9 per cent. as of 31st December, 2011. Measured against this ratio, the BES Group ranks as one of the most efficient banks in Portugal, according to public information provided by financial institutions in Portugal listed on NYSE Euronext Lisbon. This situation is the outcome of rigorous cost control and of the continuous implementation of rationalisation measures of human and operative resources, of process streamlining and continuous investment in new technologies.

For 2012, despite the full consolidation of BES Vida, domestic operating costs decreased by 1.4 per cent. (a -2.5 per cent. decrease on a comparable basis), while international costs increased by 9.3 per cent., largely due to the expansion of the distribution network in Angola and the start of operations of the two new branches abroad.

## **5. Business Segments**

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

The historic connection with Africa and South America, notably with Brazil and Angola, the internationalisation of Portuguese companies, the growing interdependence of economies and the large communities of Portuguese nationals established across various continents have provided the basis for BES Group to expand its international structure, and to adapt it to provide relevant services to those communities, with a positive impact on overall activity.

The BES Group's products and services include deposits, loans to individual and corporate customers, asset management, brokerage and custodian services, investment banking services and the distribution of life and non-life insurance products. Additionally, the BES Group makes short, medium and long-term investments in the financial and currency exchange markets with the objective of taking advantage of price changes or having a return from its available financial resources.

For financial reporting and management purposes, the Group reports on the basis of the following operational segments:

- Domestic Commercial Banking, which includes the Retail, Corporate, Institutional and Private Banking sub-segments
- International Commercial Banking
- Investment Banking
- Asset Management
- Life Insurance
- Capital Markets and Strategic Investments
- Corporate Centre

Each segment is supported by directly dedicated structures of the BES Group, as well as by the units of the BES Group whose activity is most closely related to each of these segments. These structures run individual and autonomous monitoring of each operational unit of the Group (from an

investment centre perspective) while the Executive Committee defines strategies and commercial plans for each Operating Segment.

In addition, there is a second segmentation of activity and results according to geographical criteria, segregating the activity and the results generated from the units located in Portugal (domestic activities) from the units located abroad (international activities).

### ***Domestic Commercial Banking***

#### *Retail Banking (“Retail Banking” or “Retail”)*

The BES Group’s approach to its retail clients is based on a diversified and distinct offer that targets the clients’ financial needs. The creation of differentiated value propositions is supported by the constant development of products and services, portfolio segmentation criteria adjusted to the clients’ characteristics, high service quality and effective communication.

Over the last few years BES has developed innovative value proposals for Retail, specifically for the segments of affluent clients (“BES 360°”), small businesses and independent professionals (“Small Businesses”), and individual retail clients (“Mass Market”). To serve these clients, the Bank has a network currently comprising 666 branches (representing a net reduction of 35 branches during the year).

#### *Assurfinance*

Resulting from a strategic partnership with Companhia de Seguros Tranquilidade (“Tranquilidade”), the Assurfinance programme offers exclusive advantages to Tranquilidade clients who have no relations with the BES Group but who open an account with BES. As a result of the intense work developed with approximately 1,900 Tranquilidade agents, in 2012 the Assurfinance programme contributed with approximately 20,000 new clients, thus proving one of the main initiatives of the Retail area.

This partnership operates from 44 on-site branches where exclusive Tranquilidade agents share their insurance mediation activity with BES clients.

#### *BES 360°: traditional excellence in customer service*

The BES 360° service is a reference proposition in financial counselling and customer monitoring for the affluent segment. This service combines high quality standards, permanent monitoring by a dedicated specialised account manager and an exclusive offer and solutions service adapted to these clients’ specific requirements.

The competitiveness of the value proposition offered to the BES 360° segment is supported by a number of strategic initiatives:

- the newly created remote approach to the affluent clients, together with the specialised BES 360° centres, widen the scope of the value proposition to the segment, permitting a significant increase in the share-of-wallet as well as greater customer loyalty;
- the BES 360° commitments, which translate the goals of excellence in customer service into concrete objectives, ensuring a professional, strict and dedicated attitude, the efficient solving of problems and the proactive presentation of the best solutions for the needs of each client;

- the competitive offer for the segment was further enhanced by innovative health protection and leisure solutions that provide a comprehensive view and response to the affluent clients' needs;
- innovative tools, such as the BESnet Trading platform for stockmarket trading, permit full coverage of the clients' needs.

This approach and the innovative and distinctive value proposition allowed the BES 360° segment to reach high customer satisfaction levels (90 per cent. of the clients expressed themselves to be 'very satisfied'), cementing its contribution to the growth of BES Group in a market context where liquidity is particularly important. Representing more than 50 per cent. of Retail's total customer funds, the segment constitutes a stable basis for the Group's funding.

#### *Small Businesses: focus on the effective management of clients' working capital needs*

In the current context of economic slowdown, the Small Businesses segment elected as a priority of its commercial activity to offer innovative and competitive cash management and payment and receipt solutions which allow the clients to manage their working capital requirements more effectively, streamlining costs and the need to resort to bank credit.

Accordingly, in 2012 the segment increased its focus on the sale of the following products:

- Cash management solutions ("BES Small Businesses Solutions") and 'Point of Sale Terminals' ("BES Small Businesses Packs") suiting the requirements of micro companies and independent professionals. As a result, the number of clients with active Point of Sale Terminals reached 14,000, further increasing BES' market share in this product.
- The "BES Express Bill" solution (launched in 2009 and extended to the Small Businesses segment in 2010), an innovative system for payments and receipts permitting to issue forward payment orders guaranteed by BES. In 2012 a total of EUR 100 million in credit facilities were approved, to 900 clients in this segment, which during the year used this solution to make supplier payments amounting to EUR 39 million. In addition, 2,900 clients benefited from payment orders guaranteed by BES totalling EUR 93 million.

Translating the emphasis placed on counselling and the offer of solutions to support the management of payments and receipts, assets under management in the Small Businesses segment increased to EUR 3,030 million.

The support provided to the partners in client firms by specialist account managers, at a personal and professional level, represents one of the more distinctive features of BES' approach to the segment. An integrated vision of the clients' needs, considering the interconnected impacts between personal and business events and taking a genuine interest on seeing them succeed over the various phases of their life, make BES the partner of choice in the Small Businesses segment, while also furthering BES' ambition of achieving a high level of penetration in firms whose partners have opted for concentrating a substantial part of their assets with BES and who resort to the bank for support in their day-to-day management needs.

#### *Mass Market*

The intensification of economic difficulties in Portugal during 2012 led to a significant increase in unemployment and the reduction of households disposable income. In these circumstances, BES reinforced its offer of savings products and other everyday protection and safety products.

The Bank thus focused on its innovative savings solutions for individual clients, such as the “Planned Saving offer”, which fosters regular saving habits through monthly contributions starting from EUR 10, or the “Micro Saving product”, which consists in the rounding up of payments (debit cards, direct debits and other) to save the difference. These products had a very good response from the Portuguese families, with the number of accounts reaching more than 235,000 in 2012. Moreover, the launch of competitive medium and long-term savings products, such as the new “Conta Rendimento CR” (Cristiano Ronaldo income account) or the “BES Vida Aforro” unit-linked insurance product, supported by strong communication initiatives, decisively contributed to the increase in total customer funds in the Mass Market segment, which rose by 9.8 per cent. compared to the previous year. Finally the partnership entered into with the National Association of Pharmacies, which permitted the launch of direct marketing actions targeting the holders of the Pharmacy Card – e.g. an offer of a free cardiovascular checkup on subscription of new saving solutions with BES – was very successful.

In the current climate of uncertainty, the Group’s insurance offer focused on the essential protection of families from events which could jeopardise their financial stability. Hence the level of subscriptions of the “BES Vida Segura” insurance product, which, at a reasonable cost, provide financial security to couples with children in case of death, serious illness or absolute or definitive disability, was very strong.

The growing use of the direct channels for contact with the Bank (“Direct Channels”) remained a key trend in the Mass Market segment. In 2012 the internet banking service for individual clients – BESnet – achieved a 9.4 per cent. increase in the number of frequent users compared to the previous year, consolidating its leading position in terms of internet banking penetration in Portugal, with a share of 43.6 per cent. of the customer base (according to Marktest), while the number of logins reached 24.6 million (an increase of 2.8 per cent. compared to the previous year). The internet banking service for corporate clients - BESnetwork – also reported significant growth, with the number of frequent users reaching 57,000 at the end of 2012 (an increase of 7.8 per cent. compared to the previous year), while the number of logins rose by 7.0 per cent., to 10.8 million. BESnetwork was awarded the Global Finance prize for best Internet Banking for Businesses in Portugal.

The BESmobile service, launched in 2011, maintained strong growth: the number of very frequent users increased to 40,000, and that of irregular users (those who only need it for mobility purposes) also reached 40,000. BESmobile earned the Global Finance magazine’s award for Best Mobile Internet Banking for Businesses in Europe. This service allows the partners or directors of subscriber firms to use their mobile phone to validate transactions initiated through BESnetwork.

In 2012 the Direct Channels consolidated their role in the relationship with the clients, providing the following:

- access to the entire range of services, account enquiries and transactions which can be done remotely, maintaining the possibility to interact directly, either through the servicing platform (BESnet mail) or with a BESdirecto operator, who can connect to the branch, if necessary;
- a strong bet on the savings and investment offer, where products can either be subscribed directly by the client or by phone or chat with help from a team specialising in savings, credit and insurance products. The stock of term deposits subscribed through BESnet grew by 76 per cent. in 2012, reaching EUR 412 million;
- integration of the Customer Relationship Management (“CRM”) platforms between the branch, BESnet and BESdirecto, managed by the marketing department with the possibility

of referral to the branch for commercial follow-up, and using a real time automatic decision model permitting to adjust the offer to the clients;

- inclusion of added value functionalities, namely the “BES Family Budget”, which automatically classifies expenses thus proving a valuable tool in the current economic context, in which savings and accurate planning are increasingly important.

The Group also operates in the Mass Market segment in the Azores, through Banco Espírito Santo dos Açores. The deterioration of the situation in Portugal and the measures taken by the government also impacted the Azores autonomous region, and therefore the activity of Banco Espírito Santo dos Açores. While the number of loans being granted decreased (although the Bank continued to support the corporate segment and in particular the small medium enterprises with good credit ratings), some success was achieved in the monitoring and recovery of troubled loans. On the other hand, there was an increase in customer funds. To support its strategy for the acquisition of new clients and the increase of its market share, the Bank signed new protocols with regional companies and institutions and emphasised the Assurfinance partnership project with Companhia de Seguros Tranquilidade. In addition, it stepped up commercial and social actions in order to further reinforce its position as a bank dedicated to serving the clients and society and as the only bank in Azores with its headquarters in the region.

#### *Corporate and Institutional Customers*

This business area focuses on the commercial relationship with large and medium-sized companies, as well as with institutional and municipal clients. Given their importance in the national business community and in the Portuguese economy in general, these clients deserve particular attention from the BES Group, which strives to offer them solutions that add value to their businesses and supports their initiatives.

The unit serves approximately 20,000 clients with a total financial involvement of more than EUR 30 billion in December 2012, through 25 Corporate Centres, a dedicated team of 120 corporate bankers for medium-sized companies, and two teams of 17 corporate bankers each for Large Companies, based in Lisbon and Porto.

#### *Support to internationalisation*

Within the support provided to the corporate sector in general, particular attention has been paid to the exporting companies and those that are expanding abroad. One of the main concerns has been to provide a comprehensive response to the needs of these companies. The model adopted relies on close coordination between BES’ commercial team and the specialised services provided by the International Premium Unit (“IPU”), a solid international presence, a wide network of correspondent banks and the Bank’s recognised know-how and leadership in trade finance. As a result of this integrated approach, 43 per cent. of the Portuguese exporting companies are BES Group clients and BES’ market share in trade finance has reached 31 per cent., representing an increase of 2.2 per cent. compared to the previous year.

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

Given the existing economic interconnection within the Iberian market, client acquisition and business development are supported by close cooperation between domestic and Spanish commercial networks. Of all the Iberian companies with a good risk profile, approximately 50 per cent. are BES Group clients. *Municipalities and Institutional Clients*

Institutional Clients (municipalities, municipal companies, universities, public hospitals and third sector institutions) have the support of expert teams based in Porto, Coimbra, Lisbon, Setúbal and Faro. The specialisation of the Bank's teams and the close links established with the segment permit to develop long-term partnership activities with institutional clients.

#### *Private Banking*

Through 23 private banking centres in Portugal, ES Private Banking monitors high net-worth clients, with assets under management totalling EUR 7.6 billion at the end of 2012.

In light of the economic and financial situation in Portugal, in 2012 the main objective of the private banking area was to consolidate the systematic regular monitoring of BES' affluent clients, namely with the support of investment experts, thus permitting an asset allocation adjusted to the risk profile of each client and incorporating the financial crisis scenario. The CRM system helped promote this regular monitoring and joint commercial approach by investment experts and private bankers to private banking clients.

Being part of a multi-specialist group gives the private banking area the advantage of offering its clients a wide range of global solutions in areas such as direct investment in financial assets, investment banking services or financial advisory services. Access to the Group's expert teams in these areas allows for a close and global monitoring of the clients' needs. With this aim in mind, in 2012 the Group created a specialised financial advisory service targeting small and medium-sized businesses which provides proactive support to the clients.

#### *International Commercial Banking*

The BES Group's International Commercial Banking activity is developed in markets with cultural and economic affinities with Portugal, and its expansion is essentially orientated to the South Atlantic Axis, namely to Africa (Angola and the Maghreb countries) and Latin America (Brazil). The Group's international presence is mainly focused on specific areas where it holds competitive advantages, exploiting markets and/or business areas with high growth potential, taking advantage of the experience obtained, and in some areas the leading position, in the domestic market. Given the increasing globalisation and openness of the financial markets, the BES Group's international expansion also reflects the need to obtain the economies of scale and operating efficiency gains afforded by a wider scope of operations. The Group's strategy is to serve local customers in target segments but also customers doing business on a transnational scale.

#### *Investment Banking*

The BES Group's investment banking activity is developed by Banco Espírito Santo de Investimento ("BES Investimento" or "BESI", which has the international trade name of Espirito Santo Investment Bank), whose main objective is to provide services to medium-sized and large companies, institutional clients, and in some specific segments, retail clients, in coordination with the Group's private banking area.

BES Investimento offers a wide range of specialised products and services, including advisory services in mergers and acquisitions, access to transactions in capital markets (equities and debt), brokerage and portfolio management services, structured finance, including project finance and acquisition finance, and management of private equity funds.



### *Asset Management*

This segment includes all the asset management activities of the Group, essentially carried out through the specialised companies of ESAF within Portugal and abroad (Spain, Luxembourg, Angola, and Brazil). ESAF's product range covers mutual funds, real estate funds and pension funds, besides providing discretionary and portfolio management services.

At the end of 2012 the global volume of assets under management was approximately EUR 15.4 billion.

### *Capital Markets and Strategic Investments*

This operating segment includes the financial management of the Group, namely 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, and long and short positions on financial instruments management, which allow the Group to take advantage of the price changes in those markets on which instruments are exchanged.

### *Corporate Centre*

This area does not correspond to an operating segment, but refers to an aggregation of corporate structures acting throughout the entire Group, such as, areas related to the Board of Directors (the "Board"), compliance, planning, financial and accounting procedures, risk management, investor relations, internal audit, organisation and quality.

## **6. BES Group Structure**

As well as being an operating entity in its own right, BES is the holding company of the BES Group and has investments in subsidiary and associated companies. The following tables provide information on the organisational structure of the BES Group as at 31st December, 2012:

	<b>Activity</b>	<b>% economic interest</b>
<b>BANCO ESPÍRITO SANTO, SA (BES)</b>	Commercial banking	
Banco Espírito Santo de Investimento, SA (BESI)	Investment bank	100.00%
BES-Vida, Companhia de Seguros, SA (BESVIDA)	Insurance	100.00%
Aman Bank for Commerce and Investment Stock Company	Commercial banking	40.00% <sup>a)</sup>
Avistar, SGPS, SA	Holding company	100.00%
Espírito Santo Servicios, SA	Insurance	100.00%
Espírito Santo Activos Financieros, SA	Asset management	95.00%
Espírito Santo Vanguarda, SL	Services provider	100.00%
Banco Espírito Santo dos Açores, SA (BAC)	Commercial banking	57.53%
BEST - Banco Electrónico de Serviço Total, SA (BEST)	Internet banking	66.00%
BES África, SGPS, SA	Holding company	100.00%
Banco Espírito Santo Angola, SA (BESA)	Commercial banking	51.94%
BESA ACTIF - Sociedade Gestora de	Asset management -	63.70%

	<b>Activity</b>	<b>% economic interest</b>
Fundos de Investimento, SA	Investment funds	
BESA ACTIF Pensões - Sociedade Gestora de Fundos de Pensões, SA	Asset management - Pension funds	63.70%
Banco Espírito Santo do Oriente, SA (BESOR)	Commercial banking	99,75%
Espírito Santo Bank (ESBANK)	Commercial banking	99.99%
BES Beteiligungs, GmbH (BES GMBH)	Holding company	100.00%
BIC International Bank Ltd. (BIBL)	Commercial banking	100.00%
Parsuni - Sociedade Unipessoal, SGPS	Holding company	100.00%
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	Real estate	100.00%
Espírito Santo, plc. (ESPLC)	Non-bank finance company	99,99%
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	Holding company	89.99%
ES Tech Ventures, S.G.P.S., SA (ESTV)	Holding company	100.00%
Banco Espirito Santo North American Capital Limited Liability Co. (BESNAC)	Financing vehicle	100.00%
BES Finance, Ltd. (BESFINANCE)	Issue of preference shares and other securities	100.00%
ES, Recuperação de Crédito, ACE (ESREC)	Services provider	99.15%
ES Concessões, SGPS, SA (ES CONCESSÕES)	Holding company	71.66%
Espírito Santo - Informática, ACE (ESINF)	Services provider	82.28%
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	Services provider	88.26%
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., SA (ESGEST)	Services provider	100.00%
Espírito Santo e Comercial de Lisboa, Inc. (ESCLINC)	Representation office	100.00%
Espírito Santo Representações, Ltda. (ESREP)	Representation office	99,99%
Quinta dos Cónegos - Sociedade Imobiliária, SA (CÓNEGOS)	Real estate	81.00%
Fundo de Capital de Risco - ES Ventures II	Venture capital fund	60.09%
Fundo de Capital de Risco - ES Ventures III	Venture capital fund	61.54%
Fundo de Capital de Risco - BES PME Capital Growth	Venture capital fund	100.00%
Fundo FCR PME / BES	Venture capital fund	55.07%
Fundo Gestão Património Imobiliário - FUNGEPI - BES	Real estate fund	81.09%
Fundo de Gestão de Património Imobiliário - FUNGEPI - BES II	Real estate fund	85.78%
FUNGERE - Fundo de Gestão de Património Imobiliário	Real estate fund	97.24%
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	Real estate fund	100.00%
BESA Valorização – Fundo de Investimento Imobiliário Fechado	Real estate fund	51.94%
FLITPTREL VIII, SA	Ventures tourism developments	10.00% <sup>a)c)</sup>
OBLOG Consulting, SA	Software development	66.63%

	<b>Activity</b>	<b>% economic interest</b>
BES, Companhia de Seguros, SA (BES SEGUROS)	Insurance	25.00%
Société Civile Immobilière du 45 Avenue Georges Mandel (SCI GM)	Real estate	22.50%
ESEGUR - Espírito Santo Segurança, SA (ESEGUR)	Security	44.00%
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	Renting	50.00%
Banco Delle Tre Venezie, Spa	Commercial banking	20.00%
Nanium, SA	Industry	41.06%
Ascendi Douro - Estradas do Douro Interior, SA	Motorway concession	18.57% <sup>b)</sup>
Ascendi Pinhal Interior - Estradas do Pinhal Interior, SA	Motorway concession	18.57% <sup>b)</sup>
UNICRE - Instituição Financeira de Crédito, SA	Non-bank finance company	17.50% <sup>b)</sup>
<i>Ijar Leasing Argélie</i>	<i>Leasing</i>	35.00%

- a) These companies were fully consolidated, as the Group exercises control over their activities.
- b) The percentage in the table above represents the Group's economic interest. These companies were accounted for following the equity method, as the Group exercises a significant influence over them.
- c) Entity created for the disposal of assets operation occurred during the year (see Note 53)

	<b>Activity</b>	<b>% economic interest</b>
<b>Banco Espírito Santo de Investimento, SA (BESI)</b>	<b>Investment bank</b>	<b>100.00%</b>
Espírito Santo Capital - Sociedade de Capital de Risco, SA (ESCAPITAL)	Venture capital	100.00%
SES Iberia	Asset management	50.00%
HLC - Centrais de Cogeração, SA	Services provider	24.50%
Coporgest, SA	Services provider	25.00%
Synergy Industry and Technology, SA	Holding company	26.00%
Salgar Investments	Services provider	45.05%
2BCapital Luxembourg S.C.A SICAR	Investment fund	42.12%
ESSI Comunicações SGPS, SA	Holding company	100.00%
ESSI SGPS, SA	Holding company	100.00%
Espírito Santo Investment Sp, Z.o.o.	Services provider	100.00%
Espírito Santo Securities India	Brokerage house	75.00%
Espírito Santo Investment Holding, Limited	Holding company	68.40%
Execution Holding, Limited	Holding company	68.40%
MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário, SA	Asset management - investment funds	25.00%
Espírito Santo Investments PLC	Non-bank finance company	100.00%
ESSI Investimentos SGPS, SA	Holding company	100.00%
Polish Hotel Capital SP	Services provider	33.00%
Espírito Santo Investimentos, SA	Holding company	100.00%
BES Investimento do Brasil, SA	Investment Bank	80.00%
2BCapital, SA	Holding company	45.00%

	<b>Activity</b>	<b>% economic interest</b>
BES Securities do Brasil, SA	Brokerage house	80.00%
Gespar Participações, Ltda.	Holding company	80.00%
BES Activos Financeiros, Ltda	Asset management	85.00%
Espírito Santo Serviços Financeiros DTVM, SA	Asset management	79.32%
FI Multimercado Treasury	Investment fund	80.00%
R Invest, Ltda	Services provider	80.00%
R Consult Participações, Ltda	Services provider	80.00%
BRB Internacional, SA	Entertainment	24.93%
Prosport - Com. Desportivas, SA	Sporting goods trading	25.00%
Apolo Films, SL	Entertainment	25,15%
Cominvest- SGII, SA	Real Estate	49.00% <sup>a)</sup>
Fundo Espírito Santo IBERIA I	Venture capital fund	38.67%
Fundo FIM BES Moderado	Investment fund	55.96%
Fundo BES Absolute Return	Investment fund	43.62% <sup>a)</sup>
<b>BES Beteiligungs, GmbH (BES GMBH)</b>	<b>Holding company</b>	<b>100.00%</b>
Bank Espírito Santo International, Ltd. (BESIL)	Commercial banking	100.00%
<b>BES África, SGPS, SA (BES ÁFRICA)</b>	<b>Holding company</b>	<b>100.00%</b>
Banco Espírito Santo Cabo Verde, SA	Commercial banking	99.99%
Moza Banco, SA	Commercial banking	25.10%
<b>ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)</b>	<b>Holding company</b>	<b>89.99%</b>
Espírito Santo Fundos de Investimento Mobiliário, SA	Asset management - investment funds	89.99%
Espírito Santo International Management, SA	Asset management - investment funds	89.81%
Espírito Santo Fundos de Investimento Imobiliário, SA	Asset management - investment funds	89.99%
Espírito Santo Fundo de Pensões, SA	Asset management - investment funds	89.99%
Capital Mais - Assessoria Financeira, SA	Asset management - investment funds	89.99%
Espirito Santo International Asset Management, Ltd.	Asset management - investment funds	44.10%
Espírito Santo Gestão de Patrimónios, SA	Asset management - investment funds	89.99%
ESAF - Espírito Santo Participações Internacionais, SGPS, SA	Asset management - investment funds	89.99%
ESAF - International Distributors Associates, Ltd	Asset management - investment funds	89.99%
<b>ES Tech Ventures, S.G.P.S., SA (ESTV)</b>	<b>Holding company</b>	<b>100.00%</b>
ES Ventures - Sociedade de Capital de Risco, SA	Venture capital fund	100.00%
Yunit Serviços, SA	Management of internet portals	33,33%
FCR Espírito Santo Ventures Inovação e Internacionalização	Venture capital fund	50.00%
Fundo Bem Comum, FCR	Venture capital fund	20.00%
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	Call centers management company	41.67%

	<b>Activity</b>	<b>% economic interest</b>
Banque Espirito Santo et de la Vénétie, SA (ES Vénétie)	Commercial banking	42.69%
a)	These companies were fully consolidated, as the Group exercises control over their activities.	
	<b>Activity</b>	<b>% economic interest</b>
<b>Fundo de Capital de Risco - ES Ventures II</b>	<b>Venture capital fund</b>	<b>60.09%</b>
Atlantic Ventures Corporation	Holding company	60.09%
Sousacamp, SGPS, SA	Holding company	23.50%
Global Active - SGPS, SA	Holding company	26.84%
Outsystems, SA	IT Services	17.60% <sup>b)</sup>
Coreworks - Proj. Circuito Sist. Elect., SA	IT Services	19.45% <sup>b)</sup>
Multiwave Photonics, SA	IT Services	12.47% <sup>b)</sup>
Bio-Genesis	Holding company	17.98% <sup>b)</sup>
YDreams - Informática, SA	IT Services	28.84%
<b>Fundo de Capital de Risco - ES Ventures III</b>	<b>Venture capital fund</b>	<b>61.54%</b>
Nutrigreen, SA	Services provider	12.31% <sup>b)</sup>
Advance Ciclone Systems, SA	Treatment and elimination of residues	19.69% <sup>b)</sup>
Watson Brown, HSM, Ltd	Recycling rubber	22.09%
Domática, Electrónica e Informática, SA	IT Services	14.51% <sup>b)</sup>
<b>Fundo FCR PME / BES</b>	<b>Venture capital fund</b>	<b>55.07%</b>
Mobile World - Comunicações. SA	Telecommunications	26.98%
MMCI - Multimédia, SA	Holding company	26.98%
TLCI 2 - Soluções Integradas de Telecomunicações, SA	Telecommunications	26.98%
Enkrott SA	Management and water treatment	16.52% <sup>b)</sup>
Palexpo - Imagem Empresarial, SA	Furniture manufacturing	27.26%
Rodi - Sinks & Ideas, SA	Metal industry	24.81%
<b>Espirito Santo Activos Financieros, SA</b>	<b>Asset management</b>	<b>95.00%</b>
Espirito Santo Gestión, SA, SGIIC	Asset management	95.00%
Espirito Santo Pensiones, S.G.F.P., SA	Asset management - pension funds	95.00%
<b>Espirito Santo Bank (ESBANK)</b>	<b>Commercial banking</b>	<b>99.99%</b>
ES Financial Services, Inc.	Brokerage house	99.99%
Tagide Properties, Inc.	Real estate	99.99%
Espirito Santo Representaciones	Representation office	99.99%
ES Investment Advisors, Inc.	Investment consulting	99.99%
<b>BES-Vida, Companhia de Seguros, SA (BES VIDA)</b>	<b>Insurance</b>	<b>100.00%</b>
Caravela Defensive Fund	Investment fund	99.19%
Caravela Balanced Fund	Investment fund	54.95%
ES Plano Dinâmico	Investment fund	98.15%
ES Rendimento Dinâmico	Investment fund	68.92%
ES Arrendamento	Investment fund	100.00%
ES Eurobond	Investment fund	52.77%
Orey Reabilitação Urbana	Investment fund	77.32%
Fimes Oriente	Investment fund	100.00%
<b>ES Concessões, SGPS, SA (ES CONCESSÕES)</b>	<b>Holding company</b>	<b>71.66%</b>

	<b>Activity</b>	<b>% economic interest</b>
ES Concessions International Holding, BV	Holding company	71.66%
Empark - Aparcamientos y Servicios, SA	Management of parking lots	15.92% <sup>b)</sup>
ES Concessions Latam, BV	Holding company	71.66%
Concesionaria Autopista Perote-Xalapa, CV	Motorway concession	14.33% <sup>b)</sup>
Ascendi Group SGPS, SA	Holding company	28.66%
Auvisa - Autovia de los Viñedos, SA	Motorway concession	35.83%

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

## 7. Management and Statutory Auditor

Pursuant to the Portuguese Companies Code, BES has adopted a corporate governance structure consisting of the Board, which includes an executive committee (the "Executive Committee"), an audit committee (the "Audit Committee") and a statutory auditor (the "Statutory Auditor"), all members of which are elected by the general meeting of shareholders (the "General Meeting"). Since late 2010, the Board also includes a Corporate Governance Committee (the "Corporate Governance Committee").

The Board is responsible for managing BES and for defining its strategy and, in particular, for guaranteeing that BES establishes adequate policies in order to manage the various categories of risk incurred in its activities. In addition, the Board is responsible for establishing means for guaranteeing the independence of the decisions taken by the Board and ensuring that the principle of equal treatment of shareholders is observed.

The day-to-day management of BES is delegated by the Board to an Executive Committee, which meets once a week and whenever convened by its Chairman. The Board elects the chairman and other members of the Executive Committee from its members. The Chairman of the Executive Committee has a deciding vote.

At present, the Executive Committee consists of 10 Directors. There are no matters restricted from consideration by the Executive Committee, except for matters (i) for which Portuguese law requires full Board participation; (ii) relating to BES' corporate strategy and policies; (iii) relating to the structure of the BES Group; and (iv) strategic decisions due to their amount, risk or special features. The Chairman of the Executive Committee submits meeting minutes and convocations to the Chairman of the Board as well as the Chairman of the Audit Committee.

The Corporate Governance Committee is composed of three independent non-executive Directors and has advisory powers in relation to corporate governance matters and the selection and evaluation of directors and senior managers. The Audit Committee is responsible for (i) supervising the management of BES; (ii) preparing an annual report on its own supervising activities and opining on the report, accounts and proposals submitted by the Board; and (iii) checking the effectiveness of the Internal Control System and the risk management and internal audit functions.

The Audit Committee is currently composed of three independent and non-executive members of the Board.

BES is also supervised by external entities, namely by its Statutory Auditor—KPMG & Associados SROC, S.A. —the Bank of Portugal, the Portuguese Securities Commission and the Portuguese Insurance Regulator.

## **Board of Directors**

Under BES' articles of association, the Board must be composed of a minimum of 11 and a maximum of 31 members (each a "Director"), who may or may not be shareholders. The Annual General Meeting of 22nd March, 2012 elected new corporate bodies for the 2012-2015 mandate, which resulted in a Board of 26 members. The term of office for a Director is four years and re-election is permitted without any term limits. The General Meeting appoints the chairman of the Board (the "Chairman"), who has a deciding vote. In the Chairman's absence or in the event that an impediment arises, the Chairman is replaced by the chairman of the Executive Committee. The Board may also elect one or more of its members to take the position of vice-chairman (the "Vice-Chairman"). In the case of definitive absence or impediment of any member of the Board, a substitute member will be co-opted and this co-optation will need to be ratified in the next General Meeting. The mandate of the member so elected will expire at the end of the office period for which the replaced member was elected.

BES' Board comprises 10 executive and 16 non-executive members. The non-executive Board members are responsible for generally overseeing the activities of the Executive Committee.

According to the Portuguese Securities Market Commission ("CMVM") Regulation no. 1/2010, listed companies should, in their Annual Report on Corporate Governance, distinguish the Executive members of the Board of Directors from the non-executive directors and, among these, those that would comply with the incompatibility rules provided for in paragraph 1 of article 414-A of the Companies Code (with exception to that provided in subparagraph b of the same article), and the independence criteria provided for in paragraph 5 of article 414 of the same Code, should these rules be applicable to the members of the Board of Directors.

According to the recommendations of the CMVM, in assessing the independence of non-executive directors the legal rules and regulations with regard to independence and incompatibilities criteria applicable to members of other corporate bodies should be taken into account.

In this light, and applying to non-executive directors, the criteria of independence and incompatibility set forth in the Companies Code for members of the supervisory board are also applied to non-executive directors. Directors are independent when they are not associated with any specific interest group in BES and when their impartiality of analysis or decision-making is unlikely to be affected in any circumstance, particularly because they are holding or acting on behalf of holders of a qualifying holding corresponding to 2 per cent. or more of BES' share capital or because they have been re-elected for more than two terms of office, either continuously or not.

In addition to checking the independence criteria set forth by the CMVM, the Board must also ensure the independence of its Directors in light of other relevant circumstances. For this purpose, the Board utilises questionnaires to assess non-executive directors' independence on an annual basis. The non-executive directors are notified of the Board's assessment of their independence and need to confirm the absence of any fact that might affect their independence. The Corporate Governance Committee must evaluate the compliance with the corporate bodies' independence requirements in accordance with the applicable laws and regulations.

Applying the criteria mentioned above, of the 16 non-executive members of the Board, seven were determined to be independent, which is more than 25 per cent. of the total and thereby in line with the CMVM's recommendations.

The following table sets out the members of the Board for the 2012-2015 four-year mandate, with an indication of name, qualification as an independent director or not and whether or not they are on the Executive Committee:

<i>Board Member</i>	<i>Executive Committee</i>	<i>Independent</i>
Alberto de Oliveira Pinto	No	Yes
Ricardo Salgado	Yes	No
Bruno de Laage de Meux	No	No
José Manuel Espírito Santo	Yes	No
António Souto	Yes	No
Jorge Martins	Yes	No
Aníbal Oliveira	No	No
Manuel Fernando Espírito Santo	No	No
José Maria Ricciardi	Yes	No
Rui Silveira	Yes	No
Joaquim Goes	Yes	No
Ricardo Espírito Santo Silva	No	No
Amílcar Moraes Pires	Yes	No
Nuno Godinho de Matos	No	Yes
João Freixa	Yes	No
Marc Olivier Tristan Oppenheim	No	No
Pedro Amaral	No	No
Isabel de Sousa Coutinho	No	Yes
João de Faria Rodrigues	No	Yes
Rita Maria Lagos do Amaral Cabral	No	Yes
Stanislas Gerald Marie George Ribes	Yes	No
Horácio Lisboa Afonso	No	Yes
Pedro João Reis de Matos Silva	No	Yes
Vincent Claude Paul Pacaud	No	No
Milton Amilcar Silva Vargas	No	No
Xavier Musca	No	No



## **List of positions held in other companies by the members of the management and supervisory corporate bodies**

The following table sets out the names of all companies and partnerships in which members of the Board have been members of the management or supervisory board (as the case may be) at any time in the five years prior to the date of this Prospectus, including positions in consolidated direct subsidiaries and affiliated companies as well as external positions:

### **Alberto Alves de Oliveira Pinto**

Holds no positions in other companies

### **Ricardo Espírito Santo Silva Salgado**

#### ***A. Corporate positions held in companies of the BES Group***

##### **Board of Directors**

Banco Espírito Santo de Investimento, S.A. (Chairman)

BES África, S.G.P.S. S.A. (Chairman)

BES Finance, Ltd (Member)

BEST – Banco Eletrónico de Serviço Total, S.A. (Chairman)

ES Tech Ventures, S.G.P.S., S.A. (Chairman)

ESAF – Espírito Santo Ativos Financeiros, S.G.P.S., S.A. (Chairman)

Espírito Santo – Empresa de Prestação de Serviços 2, ACE (Chairman)

Espírito Santo Bank (Member)

Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Chairman)

#### ***B. Corporate positions held in companies outside the BES Group***

##### **Board of Directors**

Banco Bradesco S.A. (Member)

Banque Espírito Santo et de la Vénétie, S.A. (Member)

Banque Privée Espírito Santo, S.A. (Member)

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Chairman)

E.S. Holding Administração e Participações S.A. (Vice-Chairman)

ES Bankers (Dubai) Limited (Chairman)

Espírito Santo Control S.A. (Member)

Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Espírito Santo Financial Group S.A. (Chairman)

Espírito Santo International S.A. (Member)

Espírito Santo Resources Limited (Member)

Espírito Santo Services, S.A (Member)

Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Sociedade de Administração de Bens Pedra da Nau, S.A. (Chairman)

### **Other Positions**

Associação Portuguesa de Bancos (Vice-Chairman of the Board, in representation of Banco Espírito Santo, S.A.) Stanley Ho Foundation (Member of the General Board)

Instituto Internacional de Estudos Bancários IIEB (Member)

### **Bruno Bernard Marie Joseph de Laage de Meux**

#### ***Corporate positions held in companies outside the BES Group***

#### **Board of Directors**

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)

BFORBANK (Member)

CA Assurances (*Censeur*)

CA Cards & Payments (Member)

CA Consumer Finance (Chairman)

CA Paiement (Member)

Crédit Agricole Creditor Insurance (Member)

Crédit Agricole Leasing & Factoring (Member)

Emporiki Bank (Member)

FIA-NET Europe (Member)

Fireca (Member)

Fonds de Garantie des Dépôts (Member of the Supervisory Board)

Uni – Editions (Chairman)

## **Other Positions**

Crédit Agricole, S.A. (Member of the Executive Committee, Member of the General Management Committee, Deputy Chief Executive Officer in Charge of Retail Banking France (Regional Banks and LCL), Specialised Financial Services and Payment Systems & Services)

### **José Manuel Pinheiro Espírito Santo Silva**

#### ***A. Corporate positions held in companies of the BES Group***

##### **Board of Directors**

Banco Espírito Santo de Investimento, S.A. (Member)

BES África, S.G.P.S. S.A. (Member)

ESAF – Espírito Santo Ativos Financeiros, S.G.P.S., S.A. (Member)

Espírito Santo Bank (Member)

#### ***B. Corporate positions held in companies outside the BES Group***

##### ***Board of Directors***

Banque Espírito Santo et de la Vénétie, S.A. (Member)

Banque Privée Espírito Santo, S.A. (Chairman)

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)

Casa da Saudade – Administração de Bens Móveis e Imóveis, S.A. (Chairman)

ES Bankers (Dubai) Limited (Member)

Espírito Santo Control S.A. (Member)

Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

Espírito Santo Financial Group S.A. (Vice-Chairman)

Espírito Santo International S.A. (Member)

Espírito Santo Resources Limited (Member)

Espírito Santo Services, S.A. (Member)

Europ Assistance – Companhia Portuguesa de Seguros, S.A. (Member)

Ponte Alta – Consultoria e Assistência (Sociedade Unipessoal), Lda. (Member)

Ribeira do Marchante – Administração de Bens Móveis e Imóveis, S.A. (Chairman)

**António José Baptista do Souto**

***A. Corporate positions held in companies of the BES Group***

**Board of Directors**

BES África, S.G.P.S. S.A. (Member)

**Other Positions**

Banco Espírito Santo dos Açores, S.A. (Member of the Remuneration Committee)

***B. Corporate positions held in companies outside BES Group***

**Board of Directors**

Angra Moura – Sociedade de Administração de Bens, S.A. (Chairman)

Companhia de Seguros Tranquilidade, S.A. (Member)

Ijar Leasing Algérie (Member)

**Other Positions**

ELO – Associação Portuguesa Para o Desenvolvimento Económico e a Cooperação (Vice-Chairman of the General Board)

TF Turismo Fundos – SGFII, S.A. (appointed in representation of the Member of the Remuneration Committee, Banco Espírito Santo, S.A.)

**Jorge Alberto Carvalho Martins**

***Corporate positions held in companies outside the BES Group***

**Board of Directors**

Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (Chairman)

**Fiscal Board**

Advita – Associação para o Desenvolvimento de Novas Iniciativas Para a Vida (Deputy member)

Agência de Desenvolvimento Regional de Entre-o-Douro e Tâmega (Chairman)

Instituto Empresarial do Tâmega (Chairman)

**Other Positions**

Futebol Clube do Porto – Futebol, S.A.D. (Member of the Advisory Board)

**Aníbal da Costa Reis de Oliveira**

***Corporate positions held in companies outside the BES Group***

**Board of Directors**

ACRO - SGPS, S.A. (Chairman)

Diliva – Sociedade de Investimentos Imobiliários, S.A. (Chairman)

Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Member)

Espírito Santo Financial Group S.A. (Member)

Espírito Santo International S.A. (Member)

Olinerg – SGPS, S.A. (Chairman)

Olinveste – S.G.P.S., Limitada (Member)

Oliren – SGPS, S.A. (Chairman)

Q. L. PORTUGAL – Sociedade de Agricultura e Serviços da Quinta da Lage, Lda. (Member)

**Manuel Fernando Moniz Galvão Espírito Santo Silva**

***Corporate positions held in companies outside the BES Group***

**Board of Directors**

Academia de Música de Santa Cecília (Non Executive Chairman)

Bensaúde Turismo, S.G.P.S., S.A. (Member)

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)

Higher Council of Espírito Santo Group (Member)

Espírito Santo Control S.A. (Member)

Espírito Santo Financial Group S.A. (Member)

Espírito Santo Health Care Investments (Chairman)

Espírito Santo Industrial, S.A. (Chairman)

Espírito Santo International S.A. (Member)

Espírito Santo Irmãos – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Espírito Santo Resources (Portugal), S.A. (Member)

Espírito Santo Resources Limited (CEO)

Espírito Santo Services, S.A. (Member)

Espírito Santo Tourism (Europe), S.A. (Chairman)

Euroamerican Finance Corporation, Inc. (Chairman)

Euroamerican Finance S.A. (Chairman)

Herdade da Comporta – Actividades Agro Silvícolas e Turísticas, S.A. (Chairman)

Rio Forte Investments, SA (Chairman)

RIOFORTE (Portugal), S.A. (Chairman)

Santogal – Sociedade Gestora de Participações Sociais, S.A. (Member)

Saptec, S.A. (Member)

SODIM, S.G.P.S., S.A. (Member)

### **Board of the General Meeting**

Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Sociedade Imobiliária e Turística da Quinta do Perú, S.A. (Chairman)

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

#### ***A. Corporate positions held in companies of the BES Group***

##### **Board of Directors**

Banco Espírito Santo de Investimento, S.A. (Vice-Chairman and Chairman of the Executive Committee)

BES África, S.G.P.S. S.A. (Member)

BES Investimento do Brasil S.A. (Chairman)

Espírito Santo Investment Holdings Limited (Chairman)

##### **Board of the General Meeting**

ESAF – Espírito Santo Gestão de Patrimónios, S.A. (Vice-Chairman)

#### ***B. Corporate positions held in companies outside BES Group***

##### **Board of Directors**

Espírito Santo Financial Group S.A. (Member)

Espírito Santo International S.A. (Member)

##### **General and Supervisory Board**

EDP – Energias de Portugal, S.A. (Member)

## **Fiscal Board**

Sporting Clube de Portugal – Futebol, S.A.D. (Member)

Sporting Clube de Portugal (Vice-Chairman of the Fiscal and Disciplinary Board)

## **Board of the General Meeting**

Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

## **Other Positions**

EDP – Energias de Portugal, S.A. (Member of the Remuneration Committee)

EDP – Energias de Portugal, S.A. (Member of the Strategy Committee)

## **Rui Manuel Duarte Sousa da Silveira**

### ***A. Corporate positions held in companies of the BES Group***

#### **Board of the General Meeting**

AVISTAR S.G.P.S., S.A. (Chairman)

Banco Espírito Santo Cabo Verde, S.A. (Chairman)

Banco Espírito Santo dos Açores, S.A. (Chairman)

BES África, S.G.P.S. S.A (Chairman)

BEST – Banco Eletrónico de Serviço Total, S.A. (Chairman)

Capital Mais – Assessoria Financeira, S.A. (Chairman)

ES Tech Ventures, S.G.P.S., S.A. (Chairman)

ESAF – Espírito Santo Ativos Financeiros, S.G.P.S., S.A. (Chairman)

ESAF – Espírito Santo Fundos de Investimento Imobiliário, S.A. (Chairman)

ESAF – Espírito Santo Fundos de Investimento Mobiliário, S.A. (Chairman)

ESAF – Espírito Santo Fundos de Pensões, S.A. (Chairman)

ESAF – Espírito Santo Gestão de Patrimónios, S.A. (Chairman)

ESAF – Espírito Santo Participações Internacionais, S.G.P.S., S.A. (Chairman)

Espírito Santo Ventures, Sociedade de Capital de Risco, S.A (Chairman)

OBLOG - Consulting, S.A. (Chairman)

***B. Corporate positions held in companies outside the BES Group***

**Board of Directors**

Cimigest – S.G.P.S., S.A. (Member)

Sociedade de Administração de Bens Casa de Bons Ares, S.A. (Chairman)

Sociedade de Silvicultura Monte do Arneirinho, Lda. (Member)

**Fiscal Board**

Companhia de Seguros Tranquilidade, S.A. (Member)

**Board of the General Meeting**

BES - Companhia de Seguros, S.A. (Chairman)

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Secretary)

ESEGUR – Empresa de Segurança, S.A. (Vice-Chairman)

Espírito Santo Saúde – S.G.P.S., S.A. (Chairman)

Esumédica – Prestação de Cuidados Médicos, S.A. (Chairman)

Europ Assistance – Companhia Portuguesa de Seguros, S.A. (Vice-Chairman)

Partran – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

T-Vida, Companhia de Seguros, S.A. (Chairman)

**Joaquim Aníbal Brito Freixial de Goes**

***A. Corporate positions held in companies of the BES Group***

**Board of Directors**

BES – Vida, Companhia de Seguros, S.A (Member)

E.S. - Recuperação de Crédito, ACE (Chairman)

Espírito Santo Informática, ACE (Chairman)

Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Member)

OBLOG - Consulting, S.A. (Chairman)

***B. Corporate positions held in companies outside the BES Group***

**Board of Directors**

BES – Companhia de Seguros, S.A (Chairman)



Glantt – Global Intelligent Technologies, S.A. (Member)

Portugal Telecom, S.G.P.S., S.A. (Member)

#### **Fiscal Board**

Centro Social e Paroquial de Nossa Senhora da Ajuda (Chairman)

Fundação Brazelton/Gomes-Pedro Para as Ciências do Bebê e da Família (Chairman)

Fundação da Universidade Católica Portuguesa (Chairman)

#### **Ricardo Abecassis Espírito Santo Silva**

##### ***A. Corporate positions held in companies of the BES Group***

#### **Management Body**

#### **Board of Directors**

AVISTAR S.G.P.S., S.A. (Member)

Banco Espírito Santo de Investimento, S.A. (Vice-Chairman)

BES Finance Ltd (Member)

BES Investimento do Brasil S.A. (Member)

Espírito Santo Bank (EUA) (Vice-Chairman)

Espírito Santo Investimentos S.A. (Brazil) (Chairman)

#### **Executive Committee**

BES Investimento do Brasil S.A. (Chairman)

Espírito Santo Investimentos S.A. (Brazil) (Chairman)

Gespar Participações Ltda (Brazil) (Member)

#### **Fiscal Board**

Banco Espírito Santo do Oriente, S.A. (Chairman)

##### ***B. Corporate positions held in companies outside the BES Group***

#### **Management Body**

#### **Board of Directors**

2bCapital S.A. (Member)

Agriways S.A. (Brazil) (Vice-Chairman)

BHG S.A. – Brazil Hospitality Group (Brazil) (Member)

Câmara Portuguesa de Comércio no Brasil (Vice-Chairman)

Espírito Santo Control S.A. (Member)

Espírito Santo International S.A. (Member)

Espírito Santo Property (Brazil) S.A. (Member)

Espírito Santo Resources Limited (Member)

Euroamerican Finance Corporation, Inc. (BVI) (Member)

Europ Assistance (Brazil) (Member)

Monteiro Aranha S.A. (Brazil) (Member)

Novagest Assets Management Ltd (Member)

Pojuca S.A. (Brazil) (Chairman)

Rioforte Investment Holding Brasil S.A. (Member)

Ushuaia – Gestão e Trading International Limited (Member)

#### **Executive Committee**

Associação Espírito Santo Cultura (Brazil) (Member)

Companhia Agrícola Botucatu (Chairman)

E.S. Holding Administração e Participações, S.A. (Chairman)

ES Consultoria Ltda (Brazil) (Partner - Member)

ESAP - Espírito Santo Agro-Pecuária S.A. (Uruguay) (Member)

ESCAE Consultoria, Administração e Empreendimentos, Ltda. (Brazil) (Member)

Saramagos S.A. Empreendimentos e Participações (Brazil) (Member)

#### **Fiscal Board**

Banco Bradesco S.A. (Member)

#### **Advisory Board**

Associação Brasileira de Bancos Internacionais S.A. (Member)

#### **Amílcar Carlos Ferreira de Moraes Pires**

#### ***A. Corporate positions held in companies of the BES Group***

#### **Board of Directors**

AVISTAR S.G.P.S., S.A. (Chairman)

Banco Espírito Santo de Investimento, S.A. (Member)

Banco Espírito Santo do Oriente, S.A. (Member)

Bank Espírito Santo International Limited (Chairman)

BES – Vida, Companhia de Seguros, S.A (Member)

BES África, S.G.P.S. S.A. (Member)

BES Finance Ltd (Member)

BIC – International Bank, Limited (Chairman)

ES Tech Ventures, S.G.P.S., S.A. (Member)

ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Member)

Espírito Santo – Empresa de Prestação de Serviços 2, ACE (Member)

Espírito Santo PLC (Member)

Execution Noble & Company Limited (Non Executive Director)

Execution Noble Limited (Non Executive Director)

Execution Noble Research Limited (Non Executive Director)

***B. Corporate positions held in companies outside the BES Group***

**Board of Directors**

Portugal Telecom, S.G.P.S., S.A. (Member)

**Nuno Maria Monteiro Godinho de Matos**

Holds no positions in other companies

**João Eduardo Moura da Silva Freixa**

***A. Corporate positions held in companies of the BES Group***

**Board of Directors**

Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)

***B. Corporate positions held in companies outside the BES Group***

**Board of Directors**

SIBS – Forward Payment Solutions, S.A. (Member, appointed by Banco Espírito Santo, S.A under the terms of Article 390 (4) of the CC)

SIBS - SGPS, S.A. (Member, appointed by Banco Espírito Santo, S.A under the terms of Article 390 (4) of the CC)

UNICRE – Instituição Financeira de Crédito, S.A. (Member, appointed by Banco Espírito Santo, S.A under the terms of Article 390 (4) of the CC)

**Pedro Mosqueira do Amaral**

***A. Corporate positions held in companies of the BES Group***

**Board of Directors**

Banco Espírito Santo de Investimento, S.A. (Member)

Bank Espírito Santo International Limited (Member)

BES Beteiligungs GmbH (Member)

***B. Corporate positions held in companies outside the BES Group***

**Board of Directors**

Banque Espírito Santo et de la Vénétie, S.A. (Member)

Banque Marocaine du Commerce Extérieur (Member)

Espírito Santo International S.A. (Member)

**Isabel Maria Osório de Antas Mégre de Sousa Coutinho**

***Corporate positions held in companies outside the BES Group***

Associação Novo Futuro (IPSS) (Chairman of the Board of Directors)

Entrajuda – Associação para o Apoio a Instituições de Solidariedade Social (Member of the Higher Council)

Instituto de Negociação e Vendas (Member of the Advisory Board)

**João de Faria Rodrigues**

***Corporate positions held in companies outside the BES Group***

**Fiscal Board**

Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)

Seguros LOGO, S.A. (Member)

T-Vida, Companhia de Seguros, S.A. (Member)

**Marc Olivier Tristan Oppenheim**

***Corporate positions held in companies outside the BES Group***

**Board of Directors**

BSF Banque Saudi Fransi (Member)

CA Cards & Payments (Member)

CA Paiement (Member)

Cassa di Risparmio di Parma e Piacenza (Groupe Cariparma Crédit Agricole) (Member)

Crédit Agricole Bank Polska (Chairman of the Supervisory Board)

Crédit Agricole Egypt, S.A.E. (Member)

Crédit du Maroc (Member of the Supervisory Board)

Emporiki Bank (Member)

FIA-NET Europe (Member)

IUB Holding (Chairman)

### **Other Positions**

Crédit Agricole, S.A. (Member of the Executive Committee & Head of International Retail and Commercial Banking)

### **Vincent Claude Paul Pacaud**

#### ***A. Corporate positions held in companies of the BES Group***

##### **Board of Directors**

BES - Vida, Companhia de Seguros, S.A (Member)

ESAF - Espírito Santo Ativos Financeiros, S.G.P.S., S.A. (Member)

#### ***B. Corporate positions held in companies outside the BES Group***

##### **Board of Directors**

BES - Companhia de Seguros, S.A. (Member and Chairman of the Executive Committee)

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

### **Rita Maria Lagos do Amaral Cabral**

#### ***Corporate positions held in companies outside the BES Group***

##### **Board of Directors**

Amaral Cabral & Associados – Sociedade de Advogados, R.L. (Member)

Cimigest – S.G.P.S., S.A. (Non executive Director)

Semapa, Sociedade de Investimento e Gestão, SGPS, S.A.(Non executive Director)

SODIM, S.G.P.S., S.A. (Non executive Director)

### **Board of the General Meeting**

Companhia Agrícola da Quinta do Duque, S.A. (Chairman)

Sociedade Agrícola do Margarido, S.A. (Chairman)

### **Other Positions**

Associação Novo Futuro (IPSS) (Vice-Chairman of the Board)

Entrajuda – Associação para o Apoio a Instituições de Solidariedade Social (Member of the Higher Council)

Instituto de Bioética da Universidade Católica Portuguesa (Vice-Chairman)

### **Stanislas Gerard Marie Georges Ribes**

Holds no positions in other companies.

### **Horácio Lisboa Afonso**

#### ***Corporate positions held in companies outside the BES Group***

#### **Board of Directors**

Camacho Palma & Lisboa Afonso – Sociedade de Revisores Oficiais de Contas (Partner - Director)

#### **Supervisory Body**

Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Somincor - Sociedade Mineira de Neves-Corvo, S.A. (Member of the Fiscal Board)

Teixeira Duarte - Engenharia e Construções, S.A. (Deputy member of the Fiscal Board)

### **Pedro João Reis Matos Silva**

#### ***Corporate positions held in companies outside the BES Group***

#### **Board of Directors**

P. Matos Silva, Garcia Jr., P. Caiado & Associados – Sociedade de Revisores Oficiais de Contas, Lda. (Member Partner)

#### **Other Positions**

Ordem dos Revisores Oficiais de Contas (Member of the Higher Board)

### **Milton Almicar Silva Vargas**

#### ***Corporate positions held in companies outside the BES Group***

#### **Board of Directors**

Cielo S.A. (Member)

Fleury S.A. (Member)

Monteiro Aranha S.A. (Member)

Portugal Telecom, S.G.P.S.,S.A. (Member)

### **Other Positions**

CPM Braxis S/A (Observer)

### **Xavier Musca**

#### ***Corporate positions held in companies outside the BES Group***

### **Board of Directors**

Amundi Groupe (Member)

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

CA Assurances (Member)

CACI (Member)

Cassa di Risparmio di Parma e Piacenza S.p.A. (Groupe Cariparma Crédit Agricole (Member)

Crédit Agricole Egypt S.A.E. (Vice-Chairman)

Crédit du Maroc (Vice-Chairman of the Supervisory Board)

Pacifica (Director and Permanent Representative of Crédit Agricole, S.A.)

Predica (Vice-Chairman)

Union de Banques Arabes et Françaises – U.B.A.F. (Vice-Chairman)

### **Other Positions**

Crédit Agricole, S.A. (Managing Director in Charge of International Proximity Banking, Asset Management and Insurance)

Crédit Agricole, S.A. (Member of the Executive Committee)

The business address for all the above Directors is Avenida da Liberdade, 195, 1250-195, Lisbon, Portugal.

### ***Statutory Auditor***

The Statutory Auditor (Revisor Oficial de Contas), re-appointed by the 2012 Annual General Meeting for a third four-year mandate (2012/2015), is KPMG & Associados SROC, S.A., which is a member of the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”), with registered office at Edifício Monumental, Avenida Praia da Vitória, 71A, 11º, 1069 – 006 Lisbon, Portugal, represented by Silvia Cristina de Sá Velho Corrêa da Silva Gomes (Revisor Oficial de Contas), who is also a member of the Portuguese Institute of Statutory Auditors.

## 8. Risk Management

The objective of the Risk Management function is to identify, assess, monitor and report all the material risks to which the BES Group is subject, both internally and externally, so that such risks remain contained and therefore do not affect the Group's financial situation.

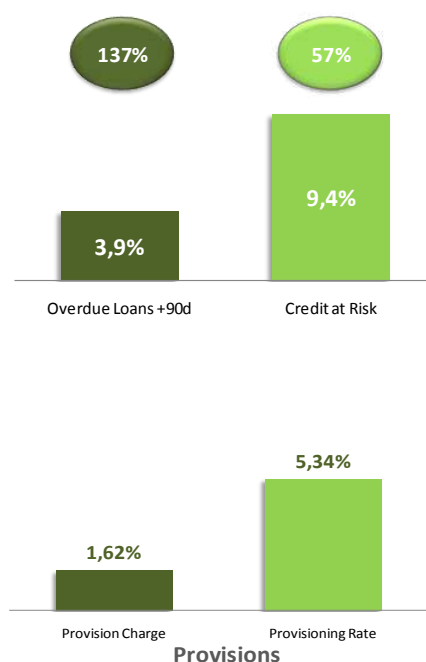
Efficient risk management and control have always played a fundamental role in the balanced and sustained growth of the BES Group, contributing to optimising risk/return across the various business lines while simultaneously providing a consistently conservative risk profile in terms of solvency and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

---

### Credit

### Overdue loans and provisions

- Economic recession inevitably impacted risk levels: the overdue loans ratio (>90 days) increased to 3.9 per cent. (Dec. 2011: 2.7 per cent.) and the credit at risk ratio reached 9.4 per cent. (Dec. 2011: 6.6 per cent.).
- Due to the increase in overdue loan levels, in 2012 provisions were reinforced by EUR 815 million (1.62 per cent.), which compares with EUR 601 million (1.17 per cent.) in 2011.
- The marked increase in provisions on the balance sheet (an increase of 24 per cent. compared to the previous year) permitted the maintenance prudent coverage ratios:
- The coverage of overdue loans (>90 days) and credit at risk reached 137 per cent. and 57 per cent., respectively, while the average provisioning rate reached 5.3 per cent. (Dec. 2011: 4.2 per cent.).
- The Inspections Programme ("OIP") carried out by the Bank of Portugal resulted in an additional provision charge of EUR 78 million, fully booked in 2012. This amount is immaterial compared to the Group's total provisions.





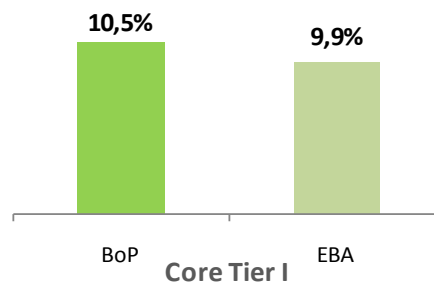
---

## Solvency

## Stronger capital ratios

---

- Core Tier 1 of 10.5 per cent. (Bank of Portugal criteria) and 9.9 per cent. (European Banking Authority (“EBA”) criteria) comfortably above minimum requirements, achieved without resorting to public funds, allows BES to maintain its strategic independence.
- Risk weighted assets dropped by 6 per cent., to EUR 61,651 million, due to the Group’s risk management policy and continued balance sheet deleveraging.
- The international capital adequacy assessment process (“ICAAP”) exercise carried out in 2012 with reference to 31st December, 2011 concluded that the BES Group has a conservative risk appetite ensuring high solvency levels associated to a minimum rating target of A (*debt holder perspective*).



Risk Weighted Assets	2012
Credit Risk	56,454
Market Risk	1,503
Operational Risk	3,694
<b>Total</b>	<b>61,651</b>

---

## Liquidity

## Conservative liquidity risk management

---

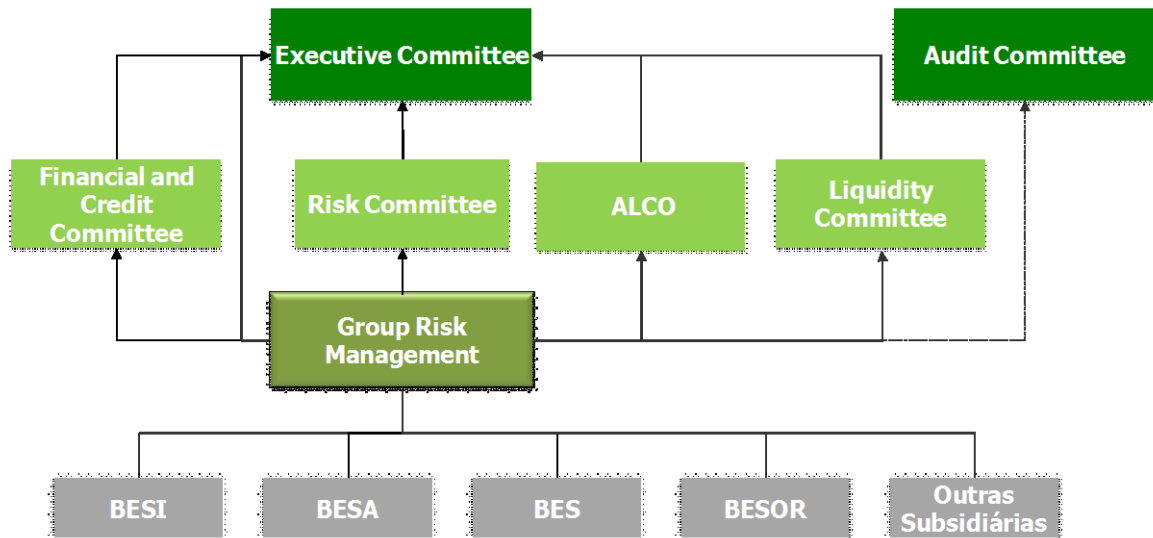
- On 31st December, 2012 the BES Group already met the Basel III Liquidity Coverage Ratio established for 2015.
- The Bank of Portugal liquidity gap up to 1 year decreased from -15 per cent. (Dec. 2011) to -1.7 per cent. (Dec. 2012), which compares with a gap of -5.4 per cent. for the Portuguese banks (Jun. 2012).
- With the markets not yet stabilised, at the end of 2012 BES opened the debt markets for the Portuguese banks, obtaining medium and long term funding of EUR 1.6 billion up to the start of 2013.



## Organisation

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

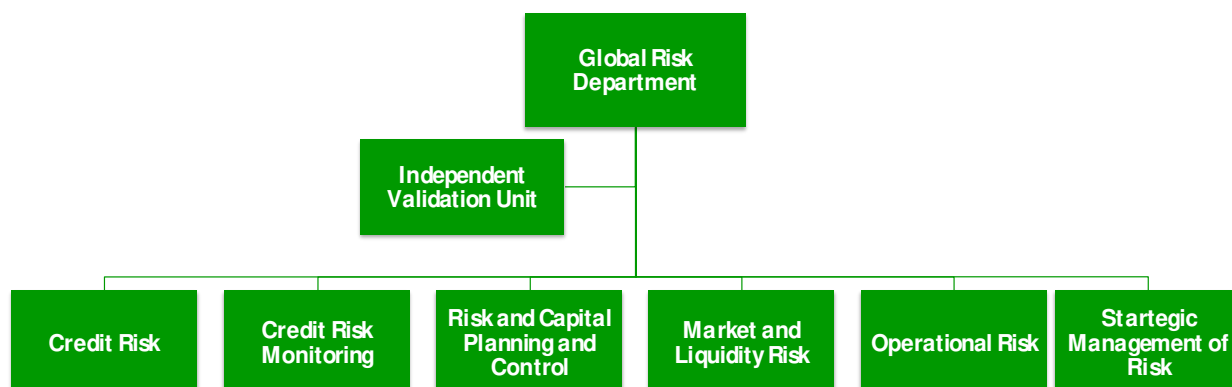
The BES Group has several specialised committees that play a relevant role in the area of risk management and control, in line with the decisions taken by the Executive Committee:



Risk management functions and responsibilities are defined according to the “Three Defence Lines” system, which clearly translates the delegation of powers and communication channels formally adopted in the Group’s policies. This segregation of functions is fundamental to align incentives and control and manage risk.

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

At operational level, the Risk Management Function is centralised at the Global Risk Department (“GRD”). This function, which is independent from the business areas, consistently incorporates risk and capital concepts within the BES Group’s strategy and business decisions.



Main functions of the GRD:

- to identify, assess, control and report on the different types of risk assumed, thus managing the Group’s overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- to implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Group’s units;
- to develop and monitor methodologies and models to identify and quantify the various categories of risk, namely internal ratings and liquidity ratios, and decision support methodologies such as pricing models, payment decision models and RAROC models;
- to determine, control and report regulatory capital requirements for credit, market and operational risks;
- to develop the ICAAP and stress tests exercises;
- to validate on a continuous basis the risk models and parameters and validate the user-testing levels of risk models;
- to monitor the BES Group’s internationalisation strategy, cooperating in the design of organisation solutions and in the monitoring and reporting of the risk exposure of the various international areas.

## Regulatory Framework

### Basel III

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

- minimum Core Tier 1 of 7 per cent., of which 4.5 per cent. minimum common equity and 2.5 per cent. capital conservation buffer;
- minimum Tier 1 of 8.5 per cent., of which 6.0 per cent. minimum and 2.5 per cent. capital conservation buffer;
- total solvency ratio of 10.5 per cent.;
- introduction of a countercyclical buffer, ranging from 0 per cent. to 2.5 per cent. of common equity, under conditions to be defined by the national regulatory authorities;
- establishment of a transitory period for the absorption of deductions to capital not eligible under BIS III and for the new deductions to capital;
- liquidity coverage ratio (“LCR”) of 100 per cent.;
- definition of the short and long term leverage and liquidity ratio (“NSFR”) in certain conditions, to be defined.

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

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

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

The BES Group closely follows the works and development process of the future regulatory framework so as to be able to determine and plan for the impact that the final rules may have on the Group.

### **Recovery and Resolution Plans**

In 2012, the Bank of Portugal approved legislation on recovery and resolution plans. This legislation aims, firstly, at identifying measures which can be adopted to correct a situation of stress where the financial strength of an institution is seriously damaged, and secondly, at the possibility of carrying out an orderly resolution of an institution.

The BES Group has in place robust mechanisms to ensure the recovery of imbalances caused by serious events that impact its solvency or liquidity.

### **Prevention of Credit Risk**

The economic crisis currently affecting Portugal has led a growing number of households to experience situations of financial stress. BES has sought to anticipate and respond to this reality through an increasingly close monitoring of the performance of loan agreements with individual clients. In 2012 the Group implemented a process viewing the centralised detection of clients in risk

of default, promoting proactive contact with these clients and the adoption of measures to prevent default.

Decree-Law no. 227/2012, of 25th October, 2012, which came into force on 1st January, 2013 (the “Decree-Law”), established the obligation of credit institutions drawing up an Action Plan for the Risk of Default (“*Plano de Ação para o Risco de Incumprimento*”, or “PARI”), thus legally forcing banks to act in this regard. More precisely, the Decree-Law requires banks to adopt procedures and measures to monitor the execution of loan agreements and in particular that ensure the following:

- The early detection of risks of default. To this extent the Bank of Portugal has defined which factors it considers to be signs of degradation of the financial capacity of a bank’s client to comply (e.g., the existence of defaults listed in the Bank of Portugal’s central credit registry, return of unpaid cheques and prohibition to use cheques, fiscal debts or debts to the social security); and
- The fast adoption of measures aimed at preventing default.

The Decree-Law also introduced another important measure, the Extrajudicial Procedure for Settling Default Situations (“*Procedimento Extrajudicial de Regularização de Situações de Incumprimento*” or “PERSI”). This procedure requires credit institutions to evaluate the occasional or lasting nature of default, assess the financial capacity of the client, and where possible, present settlement proposals that are adequate to the client’s financial situation, objectives and needs. BES has been implementing the measures required for compliance with the procedures laid down in the PERSI.

### **On-site Inspections Programme (“OIP”)**

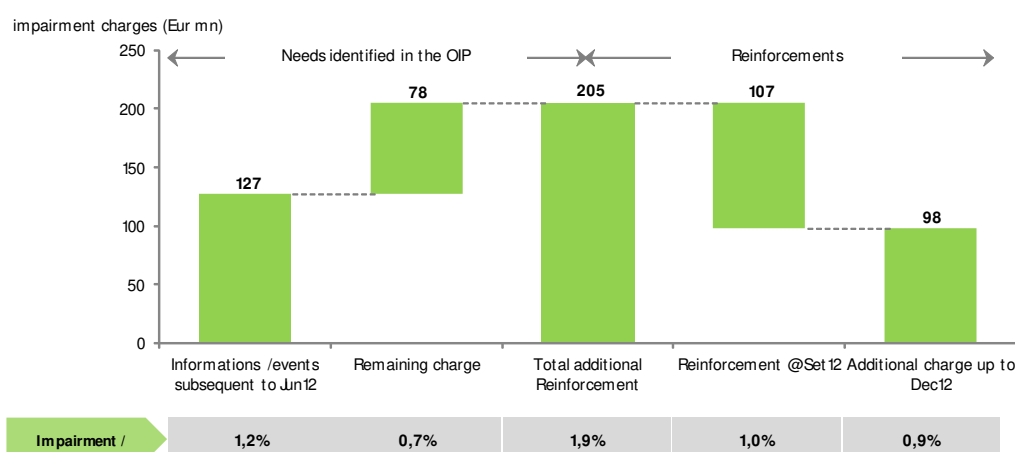
An OIP on the exposure of financial institutions to the construction and real estate sectors in Portugal and Spain, developed by the Bank of Portugal with an external auditor appointed by it, was conducted during the second half of 2012, with reference to 30th June, 2012.

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

The programme estimated that BES Group needed to increase impairments by EUR 205 million, corresponding to approximately 1.9 per cent. of the exposures analysed.

Of these EUR 205 million, EUR 127 million resulted from the analysis of information and events subsequent to the reference date, such as new insolvencies/bankruptcies or the revaluation of collaterals, as shown in the left-hand side of the chart below.

The increase of impairments made by the Group with reference to 30th September, 2012 covered a large part of the needs identified, i.e., it reduced their amount from EUR 205 million to EUR 98 million. This amount was recorded in BES’ financial records on 31st December, 2012, as shown in the right-hand side of the chart below.



The conclusion is that the impact of the results of the OIP is immaterial in light of the Group's level of provisions.

## 9. Liquidity Management and Funding

The year of 2012 started with a climate of high instability in the markets leading to a significant widening of sovereign debt spreads in the peripheral countries. Despite the adverse context, in May 2012 BES successfully concluded a EUR 1,010 rights issue which was almost entirely completed through the exercise of pre-emption rights (99.3 per cent.) – a clear proof of the confidence placed by the shareholders in BES. Moreover, this operation allowed BES to meet the capital ratios established by the Bank of Portugal (“BoP”) and the EBA while maintaining its strategic autonomy.

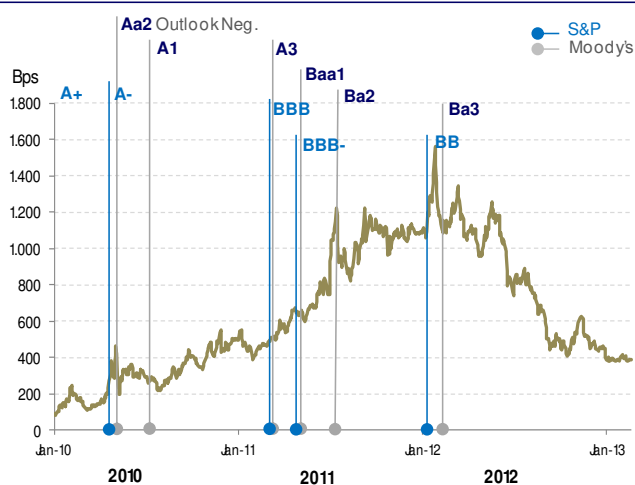
The escalation of instability at the end of 2011 and beginning of 2012 led the ECB to adopt a more interventionist stance and take a number of measures to restore liquidity in the market:

- (i) a new long term refinancing operation (“LTRO”), on 29th February, 2012 (the first LTRO had taken place in December 2011);
- (ii) the extension of eligibility criteria for collaterals accepted for monetary policy operations, and the reduction of the reserve requirement ratio for European banks; and
- (iii) the announcement, in September 2011, of a programme of public debt acquisitions (Outright Monetary Transactions or “OMT”) from Eurozone countries having formally requested assistance from the European Commission (i.e. countries undergoing an economic and financial adjustment programme or an EFSF/ESM precautionary assistance programme).

This set of events led to a significant reduction of volatility and systemic risks in the Eurozone and represented an important step towards the financial stabilisation of the Eurozone. As a result the yields of the sovereign debt of all peripheral countries fell sharply, and by the end of the year the Portuguese yields had already dropped to below their level in April 2011, when the country had requested financial assistance.

## 5Y CDS vs Rating

Portugal: Evolution of CDS 5y & Moody's/ S&P rating



BES: Evolution of CDS 5y & Moody's/ S&P rating



In addition, these measures gradually restored the conditions of access to the international financial markets for peripheral issuers, namely for Portuguese issuers such as EDP, Brisa and Portugal Telecom, which, after a long period of inaccessibility to the financial markets, were able to make public issuances of debt in September 2012.

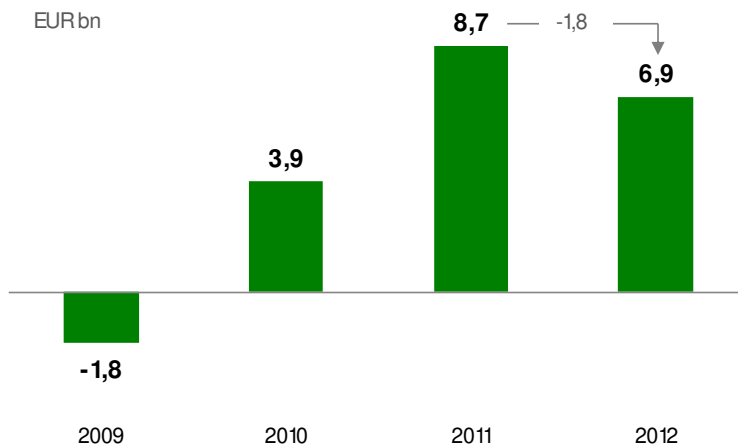
This overall improvement in economic sentiment also allowed BES to tap the international capital markets at the end of November 2012 with a EUR 750 million issue of senior unsecured debt with the maturity of 3 years - the first issue of debt made by any Portuguese bank since April 2010. The success of the transaction was evident as the order book reached EUR 2.7 billion (four times the amount of the offer), with the participation of 225 national and international investors.

Also in the last quarter of the year, BES accessed the international markets again with a USD 450 million 3-year issue of bonds exchangeable for shares of Banco Bradesco, the third such issue made by BES. This transaction was designed to anticipate the refinancing of the exchangeable bonds issue in April 2013.

In January 2013 the Group once again tapped the markets with a EUR 500 million issue of senior unsecured debt with the maturity of 5 years. As was the case with the November 2012 issue, this latest operation was again very well received by the markets, with demand reaching ca. EUR 3 billion (six times the amount of the offer), and more than 280 investors participating.

Together, these transactions generated liquidity of ca. EUR 1.6 billion, representing an important step in regaining access to funding through the international capital markets. Moreover, the liquidity thus obtained allowed BES to pursue the strategy of gradual reduction of exposure to the ECB. During the year the balance sheet deleveraging policies pursued permitted the reimbursement of medium and long term wholesale funding facilities totalling EUR 3.7 billion and also to reduce the net exposure to the ECB by EUR 1.8 billion. With a more comfortable liquidity position, at the beginning of 2013 BES decided to repay in advance EUR 1.0 billion of the ECB LTRO facility.

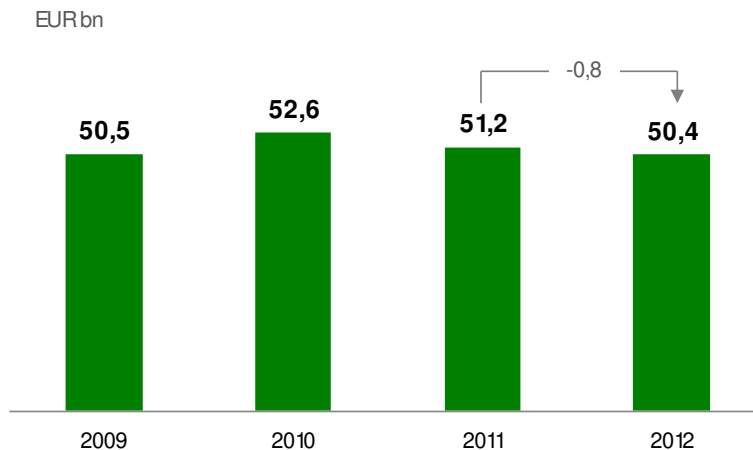
## Net ECB funding evolution



However, even if liquidity conditions improved as from the third quarter and it was possible to return to market funding, the first nine months of 2012 were still characterised by scarce liquidity in the markets. The policy guidelines that permitted the overcoming of the inaccessibility to international markets over the last two years were therefore maintained:

1. Continued deleveraging of the balance sheet, initiated in mid-2010. This involved the sale of positions in the securities portfolio totalling EUR 3.2 billion during the year. On the other hand the loan book was reduced by EUR 2.2 billion since 2010 with the objective of reaching a loan to deposits ratio of 120 per cent. until the end of 2014, which will also permit the deleveraging of the Portuguese families and companies.

## Loan book evolution in 2012 (Gross)



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

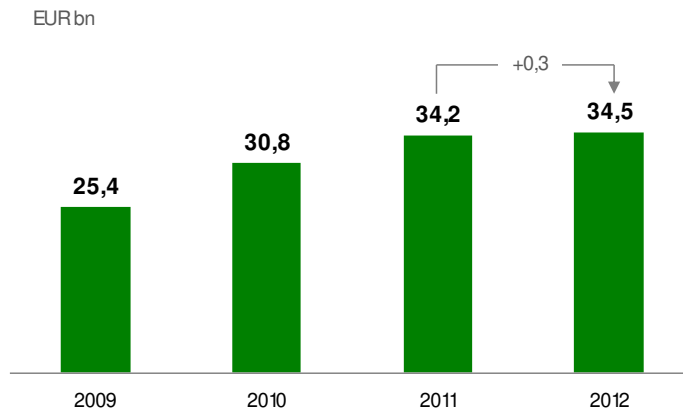
Customer deposits increased by EUR 334 million in 2012, having reversed in September the downward trend observed since the start of the year.

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



On the other hand, the acquisition of control of BES Vida included *bancassurance* products within BES' offer of customer funds, which at the end of 2012 amounted to EUR 5 billion, representing 8 per cent. of the funding structure.

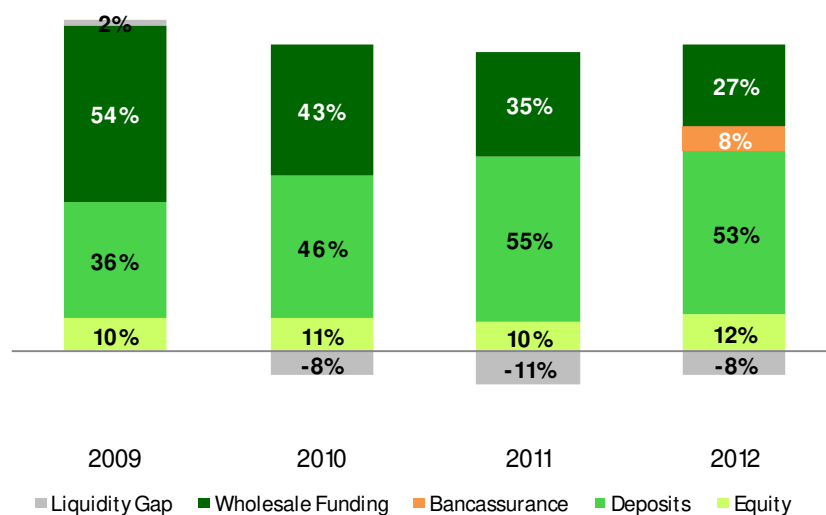
### Customer deposits evolution in 2012



Even so, and as in 2010 and 2011, customer deposits remained BES' main funding source, representing 53 per cent. of the funding structure (a 17 p.p. increase since 2009).

Together, customer deposits and *bancassurance* products account for 61 per cent. of the funding structure.

### Funding Structure Evolution



Over the last three years the increase in customer deposits and the reduction of the loan and securities portfolios in part offset the reduction in wholesale funding lines, which as a percentage of the Bank's overall funding structure dropped by 27 p.p., from 54 per cent. in 2009 to 27 per cent. in 2012.

### 3. Reinforcement of assets eligible for rediscount with the ECB

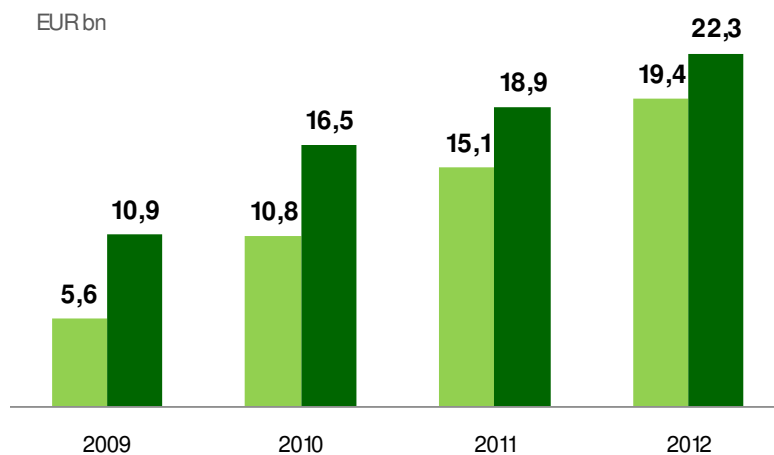
During 2012 BES pursued its policy of reinforcing the portfolio of assets eligible for rediscount with the ECB, which increased by EUR 4.3 billion since 2011. This

reinforcement was mainly focused in the first half of the year, based on the ECB's extension of eligibility criteria for collaterals accepted for monetary policy operations.

Measures taken in 2012 to reinforce eligible assets:

- Two 3-year bond issues guaranteed by the Portuguese Republic for a total of EUR 2.5 billion.
- Preparation of credit portfolios totalling EUR 4.2 billion in accordance with the new eligibility criteria.

### Evolution of rediscountable securities



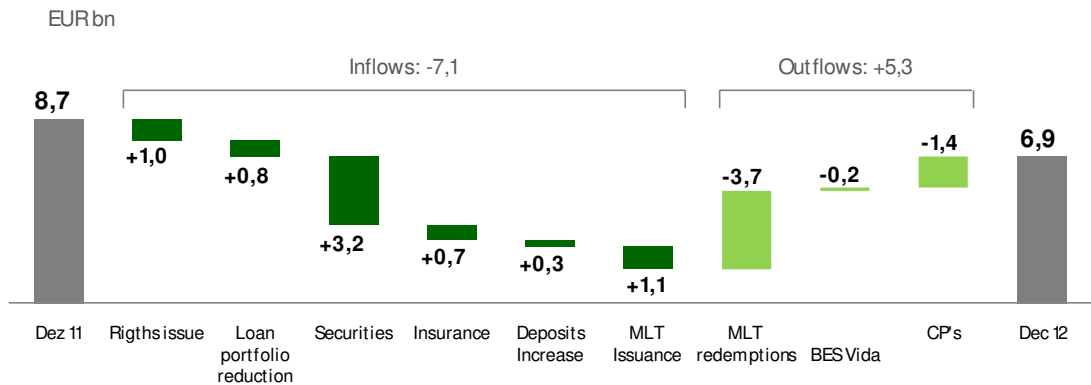
The portfolio of repoable securities includes exposure to Portuguese sovereign debt of EUR 3.2 billion, as well as exposure to other peripheral countries' sovereign debt, namely EUR 606 million to Spanish public debt, EUR 25 million to Irish public debt, EUR 28 million to Italian public debt and EUR 3 million to Greek public debt.

These assets guaranteed access to the main longer-term refinancing operations, which were fundamental during the first half of the year (in which medium and long-term debt redemptions were concentrated) to overcome the inaccessibility to the short and medium term markets.

As referred to above, at the end of the year the Group's net borrowing position at the ECB was EUR 6.9 billion, broken down as follows:

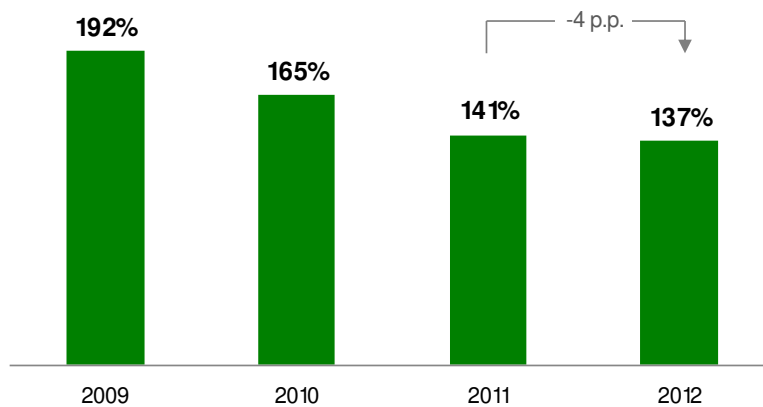
- EUR 10.2 billion under 3-year LTROs
- EUR 3.4 billion of placements with the BCE.

## Net ECB funding evolution in 2012



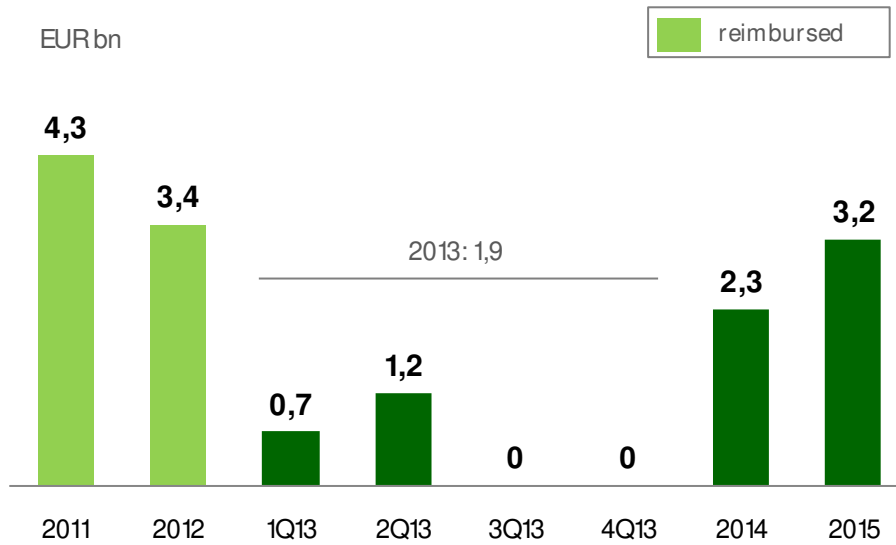
The implementation of the referred guidelines permitted refinancing of all the debt maturing before the end of the year, including the EUR 3.4 billion medium and long-term debt reimbursed during the year, to improve the loans to deposits ratio by 4 p.p., to 137 per cent. and to reduce net funding from the ECB by EUR 1.8 billion.

## Loan to deposits ratio evolution



In 2013 medium and long term debt redemptions totalled EUR 1.9 billion and were mainly concentrated in the first half of the year. Of the amount coming to maturity, ca. 26 per cent. has been refinanced, namely through the EUR 500 million bond issue made by BES in January 2013.

## Maturity Profile



### 10. Financial Statements of the BES Group

The consolidated financial statements for the years ended 31st December, 2011, 2012 and the financial information in the Q1 2012 Announcement were prepared in accordance with IFRS as adopted for use in the European Union.

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2012 AND AT 31 DECEMBER 2011**

(in thousands of euro)

	31.12.2012	31.12.2011
<b>Assets</b>		
Cash and deposits at central banks	1 377 541	1 090 439
Deposits with banks	681 077	580 813
Financial assets held for trading	3 925 399	3 434 639
Other financial assets at fair value through profit or loss	2 821 553	1 963 989
Available-for-sale financial assets	10 755 310	11 482 866
Loans and advances to banks	5 426 518	3 282 576
Loans and advances to customers	47 706 392	49 043 382
Held-to-maturity investments	941 549	1 541 182
Derivatives for risk management purposes	516 520	510 090
Non-current assets held for sale	3 277 540	1 646 683
Investment properties	441 988	-
Property and equipment	931 622	851 678
Intangible assets	555 326	230 332
Investments in associates	580 982	806 999
Current income tax assets	24 648	28 692
Deferred income tax assets	728 905	712 157
Technical reserves of reinsurance ceded	3 804	-
Other assets	2 994 154	3 030 855
<b>Total Assets</b>	<b>83 690 828</b>	<b>80 237 372</b>
<b>Liabilities</b>		
Deposits from central banks	10 893 320	10 013 713
Financial liabilities held for trading	2 122 025	2 125 253
Deposits from banks	5 088 658	6 239 360
Due to customers	34 540 323	34 206 162
Debt securities issued	15 424 061	18 452 648
Derivatives for risk management purposes	125 199	238 633
Investment contracts	3 413 563	-
Non-current liabilities held for sale	175 945	140 950
Provisions	236 950	190 450
Technical reserves of direct insurance	1 577 408	-
Current income tax liabilities	221 199	44 937
Deferred income tax liabilities	154 015	110 533
Subordinated debt	839 816	961 235
Other liabilities	1 145 602	1 321 023
<b>Total Liabilities</b>	<b>75 958 084</b>	<b>74 044 897</b>
<b>Equity</b>		
Share capital	5 040 124	4 030 232
Share premium	1 069 517	1 081 663
Other equity instruments	29 295	29 505
Treasury stock	( 6 991)	( 997)
Preference shares	193 289	211 913
Other reserves, retained earnings and other comprehensive income	641 964	360 470
Profit for the period attributable to equity holders of the Bank	96 101	( 108 758)
<b>Total Equity attributable to equity holders of the Bank</b>	<b>7 063 299</b>	<b>5 604 028</b>
Non-controlling interest	669 445	588 447
<b>Total Equity</b>	<b>7 732 744</b>	<b>6 192 475</b>
<b>Total Equity and Liabilities</b>	<b>83 690 828</b>	<b>80 237 372</b>

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011**

(in thousands of euro)

	31.12.2012	31.12.2011
Interest and similar income	3 914 109	4 084 862
Interest expense and similar charges	2 733 601	2 903 271
<b>Net interest income</b>	<b>1 180 508</b>	<b>1 181 591</b>
Dividend income	72 604	167 701
Fee and commission income	975 062	888 646
Fee and commission expenses	( 181 144)	( 130 546)
Net gains / (losses) from financial assets at fair value through profit or loss	( 59 408)	( 178 904)
Net gains / (losses) from available-for-sale financial assets	600 206	( 68 770)
Net gains / (losses) from foreign exchange differences	( 23 788)	( 32 645)
Net gains/ (losses) from the sale of other assets	( 42 159)	( 91 680)
Insurance earned premiums net of reinsurance	62 257	-
Claims incurred net of reinsurance	( 362 973)	-
Change on the technical reserves net of reinsurance	301 423	-
Other operating income and expense	109 562	357 803
<b>Operating income</b>	<b>2 632 150</b>	<b>2 093 196</b>
Staff costs	598 883	587 475
General and administrative expenses	442 120	433 753
Depreciation and amortisation	108 074	107 926
Provisions net of reversals	56 978	6 860
Loans impairment net of reversals and recoveries	814 832	600 616
Impairment on other financial assets net of reversals and recoveries	106 727	73 251
Impairment on other assets net of reversals and recoveries	220 893	167 602
<b>Operating expenses</b>	<b>2 348 507</b>	<b>1 977 483</b>
Gains on disposal of investments in subsidiaries and associates	383	1 795
Losses arising on business combinations achieved in stages	( 89 586)	-
Share of profit of associates	8 312	( 175 231)
<b>Profit before income tax</b>	<b>202 752</b>	<b>( 57 723)</b>
<b>Income tax</b>		
Current tax	135 350	72 147
Deferred tax	( 52 434)	( 133 666)
	<b>82 916</b>	<b>( 61 519)</b>
<b>Profit for the year</b>	<b>119 836</b>	<b>3 796</b>
<b>Attributable to equity holders of the Bank</b>	<b>96 101</b>	<b>( 108 758)</b>
<b>Attributable to non-controlling interest</b>	<b>23 735</b>	<b>112 554</b>
	<b>119 836</b>	<b>3 796</b>

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011**

(in thousands of euro)

	31.12.2012	31.12.2011
<b>Cash flows from operating activities</b>		
Interest and similar income received	3 866 756	3 891 906
Interest expense and similar charges paid	(2 761 592)	(2 911 344)
Fees and commission received	980 751	894 674
Fees and commission paid	( 188 981)	( 143 472)
Insurance premiums	( 301 802)	-
Recoveries on loans previously written off	21 900	26 553
Contributions to pensions' fund	( 86 410)	( 92 467)
Cash payments to employees and suppliers	( 845 776)	(1 088 677)
	<b>684 846</b>	<b>577 173</b>
<i>Changes in operating assets and liabilities:</i>		
Deposits with central banks	(2 475 433)	3 315 365
Financial assets at fair value through profit or loss	1 433 434	( 173 894)
Loans and advances to banks	1 225 370	( 290 655)
Deposits from banks	(1 296 220)	( 171 308)
Loans and advances to customers	( 388 936)	332 334
Due to customers	320 144	3 313 699
Derivatives for risk management purposes	226 558	( 142 821)
Other operating assets and liabilities	( 470 973)	( 746 285)
<b>Net cash from operating activities before income tax</b>	<b>( 741 210)</b>	<b>6 013 608</b>
Income taxes paid	( 39 943)	46 890
<b>Net cash from operating activities</b>	<b>( 781 153)</b>	<b>6 060 498</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries and associates	( 257 418)	( 98 191)
Sale of subsidiaries and associates	51 613	5 565
Dividends received	76 027	171 894
Acquisition of available-for-sale financial assets	(69 490 051)	(47 352 062)
Sale of available-for-sale financial assets	72 942 251	47 680 028
Held to maturity investments	648 712	394 549
Issued insurance investment contracts	200 849	-
Purchase of tangible and intangible assets and investment properties	( 532 483)	( 145 361)
Sale of tangible and intangible assets and investment properties	7 489	507
<b>Net cash from investing activities</b>	<b>3 646 989</b>	<b>656 929</b>
<b>Cash flows from financing activities</b>		
Capital increase	997 746	-
Acquisition of preference shares	( 11 430)	( 41 841)
Bonds issued	13 218 398	9 095 624
Bonds paid	(16 529 485)	(14 422 787)
Subordinated debt issued	-	8 174
Subordinated debt paid	( 210 096)	( 989 458)
Treasury stock	( 5 994)	( 997)
Interest from other equity instruments	( 2 809)	( 21 801)
Dividends paid on ordinary shares	-	( 146 955)
Dividends paid on preference shares	( 10 997)	( 25 717)
<b>Net cash from financing activities</b>	<b>(2 554 667)</b>	<b>(6 545 758)</b>
<b>Net changes in cash and cash equivalents</b>	<b>311 169</b>	<b>171 669</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1 542 251</b>	<b>1 341 403</b>
BES Vida full consolidation impact	198 648	-
Effect of exchange rate changes on cash and cash equivalents	( 27 535)	29 179
Net changes in cash and cash equivalents	311 169	171 669
<b>Cash and cash equivalents at the end of the period</b>	<b>2 024 533</b>	<b>1 542 251</b>
<b>Cash and cash equivalents includes:</b>		
Cash	303 538	278 179
Deposits at Central Banks	1 074 003	812 260
of which, restricted balances	( 34 085)	( 129 001)
Deposits with banks	681 077	580 813
<b>Total</b>	<b>2 024 533</b>	<b>1 542 251</b>

## 11. Recent Developments

On 7th May, 2013, the unaudited results of BES and its consolidated subsidiaries for the three-month period ended 31st March, 2013, prepared in accordance with IFRS as adopted by the European Union, were announced. The following is a summary of those results:

- The loan book grew by 0.6 per cent. compared to the previous year (which represents an increase of EUR 283 million), underpinned by corporate loans, which were up by 2.1 per cent. (which represents an increase of EUR 761 million) compared to the previous year and by EUR 868 million in the quarter (an increase of 6.9 per cent. in annualised terms) inverting the downward trend since June 2011. Loans to individuals decreased by 3.4 per cent. due to the contraction of demand and the reimbursement of mortgage loans.
- However the strong increase in customer funds (+7.0 per cent.; +EUR 3.8 billion) positively impacted the transformation ratio, which dropped to 129 per cent. (March 2012: 135 per cent.); at the end of 1Q13 the BES Group's net funding from the European Central Bank (the "ECB") was EUR 7.9 billion (March 2012: EUR 12.1 billion), after the early repayment in January of EUR 1.0 billion of the LTRO facility. The pool of collaterals eligible for rediscount with the ECB reached EUR 25.4 billion (March 2012: EUR 24.2 billion).
- The economic recession (GDP has been falling for 10 consecutive quarters) harmed income generation, (due to the increase in insolvencies and unemployment) driving up impairment costs. Banking income fell by 14.2 per cent. and provisions were reinforced by 25.9 per cent., leading to a net loss in the first quarter of 2013 of EUR 62.0 million.
- The international results were affected in general by the deceleration of export/import transactions and consequent decrease in documentary credit operations in all operational platforms, and in particular by the deleveraging programme imposed on BESA in Angola and the start-up phase of investments in Mozambique, Venezuela and Luxembourg.
- The overdue loans (>90 days) ratio increased to 4.34 per cent. (March 2012: 2.96 per cent.) and the credit at risk ratio reached 10.1 per cent. (March 2012: 7.15 per cent.). Provision charges were consequently increased to 1.46 per cent. of gross loans, from 1.17 per cent. in 1Q12. The balance of provisions for credit increased by 24.3 per cent. compared to the previous year, to EUR 2.8 billion.
- The provision coverage of overdue loans (>90 days), at 126.8 per cent., remains comfortably above 100 per cent., while the coverage of credit at risk was 54.5 per cent. The Provisions for Credit/Gross Loans ratio continued to increase, reaching 5.51 per cent. (March 2012: 4.45 per cent.).
- In line with the strategy for recovery of credit at risk, 57 per cent. of loans to individuals and companies are secured by collaterals, securities are proactively executed, driving up the value of real estate assets on the balance sheet to EUR 2.0 billion (recorded in BES' financial records according to conservative valuations), and sales of these assets reached EUR 97 million in 1Q12 (+61 per cent.), with no additional losses.
- The Core Tier 1 ratio was 10.5 per cent., remaining above the Bank of Portugal's minimum requirement (10 per cent.), and 9.9 per cent. under the EBA criteria (minimum required: 9 per cent.).
- In a survey conducted by the European Consumer Satisfaction Index ("ECSI") BES ranked in 1st place among the five largest Portuguese banks.



On 16th May, 2013 BES informed the market about a deal for the acquisition of a 18.9 per cent. stake in the share capital of Moza Banco, S.A. owned by Geocapital, Gestão de Participações S.A. After the completion of the acquisition, BES will hold a 44 per cent. stake in the share capital of Moza Banco. This acquisition is subject to the necessary consents and authorisations.

On 28 June 2013, BES announced that BES Vida had entered into a reinsurance agreement with New Reinsurance Company Ltd., a subsidiary of Munich Reinsurance Company, under which New Reinsurance Company Ltd. will reinsure the whole of BES Vida's individual life risk portfolio and policies in force as of 30 June 2013. This transaction has an estimated positive impact of approximately 40 basis points on the consolidated Core Tier I ratio of BES, based on the risk weighted assets as at 31 March, 2013, and is part of the measures BES has been taking in order to maintain an adequate capital buffer above the minimum requirements.

## **12. Supervision and Regulation**

### **The Bank of Portugal**

The Bank of Portugal is a part of the European System of Central Banks (“ESCB”), which was created in connection with the European Economic and Monetary Union (“EMU”). The EMU implements a single monetary policy, the main features of which are a single currency – the Euro – and the creation of a European Central Bank (“ECB”) and the ESCB. According to the European Union (“EU”) Treaty, the primary objective of the ESCB shall be to maintain price stability through monetary policy.

The Bank of Portugal is directed to provide for the stability of the domestic financial system, performing for this purpose the function of lender of last resort. This goal is achieved through the supervision of credit institutions, financial companies and other entities subject to the supervision of the Bank of Portugal.

According to the *Regime Geral das Instituições de Crédito e Sociedades Financeiras*, the Legal Framework of Credit Institutions and Financial Companies (enacted by Decree Law No. 298/92 of 31st December, 1992, as amended from time to time), the Bank of Portugal authorises the establishment of credit institutions and financial companies based on technical-prudential criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches should they occur, and possesses the ability to take extraordinary measures of reorganisation.

The Bank of Portugal has established rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. It monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

The Bank of Portugal is also charged with the duty to regulate, oversee and promote the smooth operation of payment systems, namely within the scope of its participation in the ESCB.

Membership of the EU subjects Portugal to compliance with European legislation which may either be in the form of regulations, which are directly enforceable in any Member State, or directives addressed to the Member States, which may require the enactment of implementing legislation or which, as established by the European Court of Justice in several decisions, may be deemed to be directly enforceable in a Member State in the event that they are clear, precise and unconditional. In addition, the European Commission and the Council of Ministers issue non-binding

recommendations to Member States. The Portuguese authorities have introduced EU directives and recommendations into legislation to adapt Portuguese laws to European regulatory standards.

## **Capital Adequacy Requirements**

### *Capital management and solvability ratio*

The main objective of the Group's capital management is to ensure compliance with the Group's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by supervisors.

The definition of the Group's strategy in terms of capital adequacy is made by the Executive Committee and is integrated into the global goals of the Group.

The Group is subject to Bank of Portugal supervision that, under the capital adequacy directive from the European Commission, establishes the prudential rules to be followed by the institutions under its supervision. These rules determine a minimum solvability ratio in relation to the requirements of the assumed risks that institutions have to fulfill.

In the scope of the implementation of the new capital accord Basel II, and using the permission granted by the new prudential regime established by Decree-Law no.103/2007 and Decree-Law no. 104/2007, the Group was authorised to use, starting 31 March, 2009, the approach based in the use of internal models for credit risks (Foundation Internal Rating Based Approach – “IRBF”) for credit risk and the Standardised Approach – “TSA”) for operational risk.

Risk-weighted assets comprise a component reflecting credit risk, but also components that reflect operational and market risk. Under the current legal framework, credit institutions may calculate the risk weighting of their assets, insofar as credit risk is concerned, according to a standards-based approach or based on their own internal risk-management models, in the latter case subject to authorisation by the Bank of Portugal.

Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. Market risk also includes the risks pertaining to interest rate-related instruments and equities in the trading book and foreign exchange risk and commodities risk throughout the bank.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

The capital elements of BES Group are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

- Core Tier 1: This category includes mainly the share capital, share premiums, eligible reserves, net profit for the year retained when certified and non-controlling interests. The fair value reserves are excluded except for the deduction of negative fair value reserves associated with shares or other equity instruments, is also deductible to Core Tier 1 the following balance sheets amounts goodwill, intangible assets, negative actuarial deviations arising from liabilities with post-employment benefits to employees above the prudential corridor limit and, where applicable, the net loss for the period.
- Basic Own Funds (“BOF”): In addition to the amounts considered as Core Tier 1, this category includes the preference shares and hybrid capital instruments. It can be deducted from capital half of the value converted into equity, above 10 per cent., in financial

institutions and insurance companies. Following the implementation of the International Ratings-Based method for credit risk, is now also adjusted 50 per cent. of the expected loss amount for exposures on the part that exceeds the sum of value adjustments and existing reserves.

- Complementary Own Funds (“COF”): Essentially incorporates the subordinated eligible debt and 45 per cent. of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50 per cent. of its value and since 2009, is also deducted 50 per cent. of the expected losses of the risk positions less any existing provisions, following the application of the International Ratings-Based method for credit risk
- Deductions (“D”): Essentially incorporates the prudential amortisation of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF cannot exceed the BOF. Also, some components of the COF (Lower Tier 2) cannot exceed 50 per cent. of the BOF.

In December 2008, the Bank of Portugal issued Notice 11/2008, establishing a transitory period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008, deducted from the expected return of the fund plan assets for the same year. This transitory period ended in December 2012 coinciding with the last prudential depreciation.

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 followed by the financial groups subject to its supervision. Therefore, Portuguese credit institutions must reach a Core Tier 1 ratio of no less than 9 per cent. by 31st December, 2011 and 10 per cent. by 31st December, 2012.

At the same time, European banks had to reach a Core Tier 1 ratio of 9 per cent. as defined by the European Banking Authority (“EBA”). Credit institutions that failed to comply with these requirements are subject to various measures that may be imposed by the Bank of Portugal, including possible restrictions on dividends and imposition of fines and other sanctions on not only the institution but also on its directors and executive officers. The BES Group is in compliance with the solvency ratio requirements.

At the end of the third quarter of 2011, the Basel Committee on Banking Supervision made several decisions regarding the functioning of the global financial system, which resulted in a set of recommendations known as Basel III.

Banks will have a transitory period (from 1st January, 2013 to 1st January, 2019) to comply with the approved rules, aimed at increasing the strength of financial institutions and helping to prevent future financial crises.

#### *Own Funds and Large Exposures*

Credit institutions are required by Portuguese law to maintain an adequate level of own funds, which shall be at least equal to the minimum share capital. The relevant criteria to determine the level of own funds is determined by the Bank of Portugal.

Under Portuguese law, credit institutions may not incur large exposure (exposure to a client or group of connected clients with a value equal to or exceeding 10 per cent. of its own funds) to a client or group of connected clients exceeding 25 per cent. of own funds.

As permitted by the Banking Consolidation Directive, the Bank of Portugal has exempted from this requirement the exposure to certain assets, including assets constituting credits over central governments or central banks to which a 0 per cent. risk weighting would be applicable under the relevant Bank of Portugal regulation.

These exposure limits are not applicable to the risks assumed by a credit institution towards its subsidiaries, parent undertaking or the subsidiaries of its parent undertaking which are subject to the supervision of the Bank of Portugal on a consolidated basis, and have their registered office in Portugal.

#### *Minimum Reserve Requirements*

Credit institutions are required to maintain minimum reserves on deposit with national central banks, calculated as a percentage of certain liabilities. The reserve requirements are set by the ECB and are currently 1 per cent. of deposits and debt securities, excluding deposits with central banks and other institutions subject to reserve requirements. Certain liabilities, notably deposits with agreed maturity over two years, deposits redeemable at notice over two years, repos, and debt securities issued with an original maturity over two years have a reserve requirement of 0 per cent.

Deposits made with the central bank for the purposes of maintaining reserve requirements earn interest at the rediscount rate at which the ECB lends to the other European central banks. The failure of a bank to maintain adequate liquidity may result in (i) a non-interest-bearing deposit with the ECB or the national central banks (of up to three times the amount of the minimum reserves which the relevant institution fails to provide) or (ii) an additional payment of up to double the ECB marginal lending rate or up to five percentage points above the ECB marginal lending rate, applied to the amount of the minimum reserves which the relevant institution fails to provide.

#### *Deposit Guarantee Fund*

The Deposit Guarantee Fund was established in 1992 and started operating in December 1994 and has administrative and financial autonomy. Credit institutions with head offices in Portugal that accept deposits must participate in this fund. The financial resources of the Deposit Guarantee Fund are mainly composed of initial contributions from the Bank of Portugal and participating credit institutions and, thereafter, periodic contributions from the participating credit institutions.

The annual contribution of each institution is calculated by reference to the average Core Tier 1 ratio of the previous year and in accordance with the factor determined in Notice no. 11/2012 of the Bank of Portugal.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the repayment to depositors of up to EUR 100,000 per depositor.

The deposits made on Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the guarantee scheme, such as those made by credit institutions, financial companies, insurance companies, investment funds, pension funds, pension fund management companies and central or local administration bodies in their own name and for their own account. Moreover, in order to prevent a conflict of interest, the Deposit Guarantee Fund does not guarantee deposits made by an institution's managing bodies, qualifying shareholders, external auditors and

non-financial companies under the control of the credit institution at issue, or which, together with the latter, belong to the same group.

#### *Borrowing from the Bank of Portugal*

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of liquidity shortfalls in the banking system. The basic method of lending employed takes the form of advances and overdrafts against collateral. For this purpose, the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is now set by the ECB.

#### *International Capital Flows*

The Portuguese authorities have established a programme of liberalisation of international capital flows in furtherance of the country's integration into the single market of the European Union.

#### *Investment in Non-financial Companies*

According to the Legal Framework of Credit Institutions and Financial Companies, credit institutions may not have any direct or indirect qualified holding exceeding 15 per cent. of their regulatory capital. This is not applicable to holdings in credit institutions, financial companies, financial institutions, pension fund management companies and insurance and reinsurance companies. In addition, the total amount of qualified holdings held by a credit institution in such non-banking companies may not exceed 60 per cent. of its regulatory capital.

The Legal Framework of Credit Institutions and Financial Companies also provides that no credit institution may directly or indirectly own more than 25 per cent. of voting rights in any single non-financial company for a period longer than three years (five years for shareholdings held indirectly through venture capital companies and holding companies). These limitations are not applicable to holdings in other credit institutions, financial companies or auxiliary services companies.

#### *Conduct supervision*

The Bank of Portugal has supervisory powers relating to the conduct of credit institutions. These powers are supported by fiscal, decision-making and sanction powers relating to the rules on the conduct of business, client relationships, professional secrecy, conflicts of interest and competition, to which credit institutions are subject. The conduct supervision rules on client relationships consist of information obligations, rules relating to the management of client complaints, a requirement to adopt a code of conduct and rules relating to the publicity of credit institutions.

#### *Resolution and recovery plans*

Within the context of establishing a legal framework for the crisis in the financial sector, the Legal Framework of Credit Institutions and Financial Companies was amended in 2012 in order to establish the obligation of the credit institutions that receive deposits in Portugal to prepare resolution and recovery plans to be submitted to the Bank of Portugal.

#### *Granting credit to members of the corporate bodies*

In general, credit institutions are not authorised to grant credit, in any way, including the granting of guarantees, to members of their board of directors or audit board, or to companies or other legal entities directly or indirectly controlled by them.

This limitation does not apply to: (i) operations with a social nature or purpose or those deriving from personnel policy; (ii) credit granted as a result of the use of credit cards associated with deposit

accounts, in conditions similar to the ones applicable to other clients with a similar profile and risk; (iii) members of the general supervisory board (“*Conselho Geral e de Supervisão*”) who are not part of any financial committee or audit committee, non-executive directors of credit institutions who are not part of the audit committee, or companies or other legal entities controlled by them; or (iv) the credit granting operations of certain entities subject to the supervision of the relevant credit institution.

The members of the board of directors or audit board of a credit institution cannot participate in the analysis and decision making process relating to operations where they may have a conflict of interest.

#### *Breach of rules under the Bank of Portugal’s supervision*

Breaches of rules under the Bank of Portugal supervision constitute misdemeanours and may result in the Bank of Portugal imposing fines of up to EUR 5,000,000. Ancillary sanctions may also be imposed, such as, amongst others, the apprehension of the proceeds obtained through the offence, public censure, the prohibition of exercising management functions in credit institutions and the suspension of voting rights of the shareholders of credit institutions.

#### *Other Controls*

The Bank of Portugal imposes a number of other controls covering various aspects of a bank’s business. It administers these controls through reporting requirements and ongoing supervision, including periodic examinations of the operations and asset portfolios of individual banks and consolidated banking groups.

### **CMVM supervision**

The regulation and supervision of the securities markets and financial intermediation activities in Portugal are carried out by the central government, acting through the Ministry of Finance and the CMVM.

The Ministry of Finance may establish policies relating to markets in financial instruments, investor protection, financial intermediation activities and generally any matters regulated by the Portuguese Securities Code. The Ministry of Finance also oversees the CMVM and co-ordinates the supervision and regulation relating to financial instruments when powers have been delegated to more than one public entity. When a disturbance in the markets in financial instruments puts the national economy at serious risk, the Ministry of Finance may, by means of a joint Ministerial Order by the Prime Minister and the Minister of Finance, impose necessary measures. These may include the temporary suspension of (i) the regulated markets and certain categories of transactions or activities of their management entities; (ii) multilateral trading facilities; (iii) settlement systems; (iv) clearing houses or central counterparties; and (v) central securities depositories.

The CMVM is the regulatory agency in charge of the supervision and regulation of the securities markets and financial intermediation services. It is an administrative agency overseen by the Ministry of Finance. In particular, the responsibilities of the CMVM include the supervision of certain conduct of business rules relating to financial intermediation activities and markets in financial instruments and the prudential supervision of certain entities.

For this purpose, the CMVM may issue regulations on matters within the scope of its supervision powers, including conduct of business rules for providers of investment services, the recognition of markets for financial instruments, the establishment of rules for the operation of such markets, as well as rules on public offers and prospectus requirements.

The CMVM may, within the course of its supervision activities, carry out inspections, issue information requests, conduct hearings, require the collaboration of other persons or entities, including police authorities, disclose information, including in substitution of supervised entities, conduct investigations and organise a registration system, carry out enforcement actions and impose administrative sanctions.

BES is subject to the CMVM's supervision both as a financial intermediary and an issuer of securities admitted to trading on a regulated market.

### **Supervisory rules applicable to BES as a financial intermediary**

BES and some of its Portuguese subsidiaries, the main ones being BESI and ESAF, are authorised as financial intermediaries. They are subject to the supervision of the CMVM in relation to their performance of financial intermediation activities.

The conduct of business rules applicable to financial intermediaries are laid out in the Portuguese Securities Code, CMVM regulations and legislation applicable to specific financial intermediation activities.

### **Conduct of Business Rules**

For the provision of regulated activities, financial intermediaries such as BES must comply with conduct of business rules set out in the Legal Framework of Credit Institutions and Financial Companies and the Portuguese Securities Code as well as those which may be established by CMVM regulation or special legislation.

As a general principle, financial intermediaries must conduct their activity in a manner which protects the legal interests of their clients and the efficiency of the market. In their dealings with other market parties, financial intermediaries must observe the dictates of good faith, in accordance with high standards of diligence, loyalty and transparency.

The main conduct of business rules applicable to financial intermediaries carrying out financial intermediation activities relate to: (i) "know your client" obligations, including the obligation to conduct tests on the suitability and adequacy of the services or products for each client; (ii) the financial intermediaries' human, material and technical resources; (iii) complaint procedures; (iv) segregation of clients' assets; (v) record keeping and reporting; (vi) conflicts of interest policy; and (vii) information obligations.

### **Supervisory Rules Applicable to BES as an Issuer of Shares Admitted to Trading in a Regulated Market**

A company whose shares are admitted to trading on a regulated market must, in addition to all the disclosure rules established in the Portuguese Companies Code, disclose to the CMVM and the public on its own website information regarding its organisation, the main aspects of its activity and how its business is conducted.

The main rules concern: (i) the obligation to disclose to the CMVM and the public on its own website all notices received regarding qualified holdings by third parties in the company's share capital and the relevant annual, semi-annual and quarterly financial and management information; (ii) specific procedures for postal votes and proxies for the exercise of voting rights in the company's general shareholders' meetings; (iii) disclosure of privileged information; and (iv) the obligation of the company's directors and other senior executives to disclose any transactions undertaken by them in relation to the company's shares.

## CMVM's Powers

As stated above, the CMVM supervises the activities and participants in the financial markets in Portugal. The CMVM has the power to introduce binding regulations, take appropriate enforcement measures to sanction breaches of these regulations and of the Portuguese Securities Code, and to sanction such breaches.

When exercising its powers, the CMVM has the right, among others, to request non-public information, including information otherwise subject to professional confidentiality obligations, hold hearings, undertake investigations and summon people to co-operate with such investigations, and take the place of supervised entities to provide information to the market.

The CMVM also operates an information disclosure system which can be used by parties subject to disclosure rules as a cost effective and efficient means of complying with information rules.

## Breach of Rules under the CMVM's Supervision

A breach of the rules laid down in the Portuguese Securities Code may constitute a crime or misdemeanour.

## Crimes

Market manipulation and the abuse of privileged information are punishable with prison sentences of up to five years and with ancillary administrative sanctions that include the prohibition against exercising any intermediation activity, interdiction from participating in the management of a publicly-traded company or financial intermediary, the publication of the notice of the crime and the apprehension of any proceeds of the illegal activity.

## Misdemeanours

Different levels of misdemeanour are punishable by different penalties. Very serious misdemeanours, such as the disclosure of untrue or misleading information to the market or undertaking an offer without the disclosure of an approved prospectus, are punishable by a fine of up to EUR 5,000,000. Serious misdemeanours, such as the failure to disclose publicly-traded companies' shareholders agreements or the breach of the obligation to launch a mandatory public offer, are punishable by fines of up to EUR 2,500,000 and less serious misdemeanours are punishable by fines of up to EUR 500,000.

## Portuguese Insurance Institute

BES is also subject to the supervision of the Portuguese Insurance Institute insofar as it is a tied insurance mediator.

## 13. Shareholders' Structure

The following table sets out the main shareholders of BES as calculated pursuant to Article 20 of the Portuguese Securities Code as of 30th April, 2013:

QUALIFIED STAKES	March 2013	
	N Shares	% Voting Rights
ESPIRITO SANTO FINANCIAL GROUP, S.A.		



<b>QUALIFIED STAKES</b>	<b>March 2013</b>	
<b>(Luxembourg)</b>		
- directly	37,971,362	0.95%
- through BESPARG, SGPS, S.A (controlled by Espirito Santo Financial (Portugal), SGPS, S.A., fully owned by Espirito Santo Financial Group S.A.)	1,417,916,095	35.29%
- through members of its Board of Directors and Supervisory Bodies	8,174,109	0.20%
- through companies controlled directly and indirectly and/or members of its Board of Directors and Supervisory Bodies	22,458,331	0.56%
<b>Total attributable</b>	<b>1,486,519,897</b>	<b>37.00%</b>
<b>CRÉDIT AGRICOLE, S.A (France)</b>		
- directly	434,252,321	10.81%
<b>Total attributable</b>	<b>434,252,321</b>	<b>10.81%</b>
<b>BRADPORT, SGPS, S.A*</b>		
- directly	194,104,165	4.83%
<b>Total attributable</b>	<b>194,104,165</b>	<b>4.83%</b>
<b>SILCHESTER INTERNATIONAL INVESTORS LIMITED (UK)</b>		
- directly	224,869,627	5.60%
<b>Total attributable</b>	<b>224,869,627</b>	<b>5.60%</b>
<b>PORTUGAL TELECOM, SGPS, S.A</b>		
- through PT Prestações - Mandatária de aquisições e gestão de bens, S.A.	84,109,047	2.09%
- through members of its Board of Directors and Supervisory Bodies	485,929	0.01%
<b>Total attributable</b>	<b>84,594,976</b>	<b>2.10%</b>
<b>WELLINGTON MANAGEMENT COMPANY LLP**</b>		
- directly	81,297,790	2.02%

---

**QUALIFIED STAKES**

---

**March 2013**

---

---

<b>Total attributable</b>	<b>81,297,790</b>	<b>2.02%</b>
---------------------------	-------------------	--------------

---

\* Portuguese company fully owned by Banco Bradesco (Brazil).

\*\* on the 17th May, 2013 Wellington Management Company LLP reduced its qualified stake to 1.77% of the voting rights of BES.

All of the ordinary shares held by the shareholders of BES have the same voting rights. According to the Articles of Association of BES, shareholders are entitled to one vote for every 100 ordinary shares held, although shareholders who own less than 100 shares may pool their shares.

BES is unaware of any arrangements, as of the date hereof, the operation of which may at a subsequent date result in a change of control of BES.

With the goal of ensuring BES' independence from its shareholders and reducing the possibility of any eventual abusive exercise of control over BES by its shareholders, BES has adopted relevant measures including, among others, full transparency in its relations with its shareholders and strict compliance with the legal provisions namely concerning transactions with related parties and conflicts of interest.

## TAXATION

### **Taxation in the Cayman Islands**

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Note under the laws of their country of citizenship, residence or domicile.

#### *Cayman Islands Taxation*

The following is a discussion on certain Cayman Islands tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

#### *Under existing Cayman Islands Laws:*

- Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax;
- The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
- Certificates evidencing the Notes, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, any instrument transferring title to any Note, in registered form, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

Banco Espírito Santo, S.A. was registered under the Companies Law of the Cayman Islands as a foreign company incorporated in Lisbon, Portugal on 20th October, 1937, which registration was given on 22nd February, 2000. Banco Espírito Santo, S.A. holds a category "B" Banking Licence issued on 15th March, 2000 under The Banks and Trust Companies Law (1995 Revision) of the Cayman Islands. BES Finance has obtained an undertaking from the Governor in Council of the Cayman Islands pursuant to the Tax Concessions Law (1995 Revision) of the Cayman Islands that, for a period of 20 years from 14th January, 1997, no law enacted in the Cayman Islands imposing any tax to be levied on profits, income gains or appreciations shall apply to BES Finance or its operations and no such tax or any tax in the nature of estate duty or inheritance tax shall be payable by BES Finance on or in respect of the shares, debentures, or other obligations of BES Finance or by way of withholding in whole or in part of any payment of dividend or other distribution of income or capital by BES Finance to its members or any payment of interest or principal or other sums due under a debenture or other obligation of BES Finance.

### **Taxation in Portugal**

**The following is a summary of the material Portuguese tax consequences with respect to the Notes. The summary does not purport to be a comprehensive description of all the tax consequences that may be relevant to any particular Noteholder, including tax considerations that arise from rules of general application or that are generally assumed to be known to Noteholders. This discussion is based on Portuguese law as it stands at the date of this Prospectus and is subject to any change in law that may take effect after such date. Prospective investors in the Notes should consult their professional advisers**

**with respect to particular circumstances and the effects of state, local or foreign laws to which they may be subject. Noteholders who are in doubt as to their tax position should consult their professional advisers.**

Economic benefits derived from interest, amortisation, reimbursement premiums and other types of remuneration arising from the Notes are designated as investment income for Portuguese tax purposes.

Notes issued by Bank acting through Cayman Islands branch or London branch or its Luxembourg branch are subject to the following specific tax considerations:

Payments to be made by the Bank acting through Cayman Islands branch or London branch or its Luxembourg branch of investment income (including interest) arising from Notes issued by them and payable to an individual or legal person who is a non-resident in Portuguese territory for tax purposes are not subject to Portuguese withholding tax provided those payments correspond to costs or charges concerning the activities of that branch. It should be taken into account that according with the legal provision dealing with this matter the Secretary of State for Fiscal Affairs (currently Secretário de Estado dos Assuntos Fiscais) has issued the governmental order no. 1132/2006-XVII, of 12th September, which has only entered into force in respect of Notes issued after 1st January, 2007, stating that, if the proceeds of the Notes issued by foreign financial branches of Portuguese credit institutions are transferred to the respective headquarters or to another branch of such Portuguese credit institutions, the investment income (including interest) arising from such Notes and payable to Noteholders with no residence, effective management or permanent establishment in Portugal will be considered subject to a Portuguese final withholding tax at a rate of 25 per cent. (in case of payments to non resident legal persons) or 28 per cent. (in case of payments to non resident individuals) or 35 per cent. (if such payments are made to (i) residents in blacklisted jurisdictions currently listed in Portaria 150/2004, of 13th February, 2004, as amended, or to (ii) accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties the relevant beneficial owner(s) of the income is/are identified), as the case may be, which may be reduced in accordance with any applicable double taxation treaty signed by Portugal. In order to benefit from such reduction Noteholders shall comply with certain procedures and certification requirements of the Portuguese tax authorities, aimed at verifying the non-resident status and eligibility for the respective tax treaty benefits (currently the form 21 RFI).

Notes issued by the Bank acting through its head office in Lisbon and through its Madeira branch are subject to the following specific tax considerations:

#### ***General tax regime applicable to debt securities***

Interest and other types of investment income obtained on Notes by a Portuguese resident individual is subject to individual income tax. If the payment of interest or other investment income is made available to Portuguese resident individuals, withholding tax applies, as a rule, at a rate of 28 per cent., which is the final tax on that income unless the individual elects to include such income in his taxable income, subject to tax at progressive rates of up to 48 per cent. In the latter circumstance an additional income tax will be due on the apt of the taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding €80,000 up to €250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding €250,000. Also, if the option of income aggregation is made an additional surcharge at the rate of 3.5 per cent. will also be due over the amount that exceeds the annual amount of the monthly minimum guaranteed wage. .

Capital gains obtained by Portuguese resident individuals on the transfer of Notes are taxed at a special tax rate of 28 per cent. levied on the positive difference between the capital gains and capital losses arising from the transfer of securities and derivatives of each year, unless the individual elects for aggregation to his taxable income, subject to tax at the current progressive rates of up to 48 per cent.. In the latter circumstance an additional income tax will be due on the apt of the taxable income exceeding €80,000 as follows: (i) 2.5

per cent. on the part of the taxable income exceeding €80,000 up to €250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding €250,000. Also, if the option of income aggregation is made an additional surcharge at the rate of 3.5 per cent. will also be due over the amount that exceeds the annual amount of the monthly minimum guaranteed wage. Accrued interest does not qualify as capital gains for tax purposes.

Interest and other investment income derived from Notes and capital gains obtained with the transfer of Notes by legal persons resident for tax purposes in Portugal and by non resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable income and are subject to a 25 per cent. tax rate, to which may be added a municipal surcharge (“derrama municipal”) of up to 1.5 per cent. of its taxable income. A State Surcharge rate will be of 3 per cent. due on the part of the taxable profits exceeding €1,500,000 up to €7,500,000 and of 5 per cent on the part of the taxable profits exceeding €7,500,000.

As general rule, withholding tax at a rate of 25 per cent. applies on interest and other investment income, which is deemed a payment on account of the final tax due. Portuguese financial institutions, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds incorporated under the laws in Portugal and some exempt entities are not subject to Portuguese withholding tax.

Investment income paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

Without prejudice to the special debt securities tax regime as described below, the general tax regime on debt securities applicable to non resident entities is the following:

As a rule, interest and other types of investment income obtained by non resident legal persons without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 25 per cent. which is the final tax on that income.

Also, as a rule, interest payments on the Notes are subject to a final withholding tax at the current rate of 28 per cent. whenever made to non resident individual persons.

Investment income paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

A withholding tax rate of 35 per cent. applies in case of investment income payments to individuals or companies domiciled in a “low tax jurisdictions” list approved by Ministerial order (Portaria) no. 150/2004 of 13 February, amended by Ministerial Order (Portaria) 292/2011, of 8th November, 2011.

Under the tax treaties entered into by Portugal which are in full force and effect on the date of this Prospectus, the withholding tax rate may be reduced to 15 per cent., 12 per cent., 10 per cent. or 5 per cent., depending on the applicable treaty and provided that the relevant formalities (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income) are met. The reduction may apply at source or through the refund of the excess tax. The forms currently applicable for these purposes may be available at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

Capital gains obtained on the transfer of Notes by non resident individuals without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation unless the individual is resident in a “low tax jurisdictions” list approved by Ministerial order (Portaria) no. 150/2004 of 13 February, amended by Ministerial Order (Portaria) 292/2011, 8th November, 2011 (Lista dos

países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis). Capital gains obtained by individuals that are not entitled to said exemption will be subject to taxation at a 28 per cent. flat rate. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese corporate income tax, but the applicable rules should be confirmed on a case by case basis. Accrued interest does not qualify as capital gains for tax purposes.

Regarding capital gains obtained on the transfer of Notes by a legal person non resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the non resident entity is more than 25 per cent. directly or indirectly held by Portuguese resident entities or if the beneficial owner is resident in a “low tax jurisdictions” list approved by Ministerial order (Portaria) no. 150/2004, of 13 February, amended by Ministerial Order (Portaria) 292/2011, of 8th November, 2011 (Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis). If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese corporate income tax, but the applicable rules should be confirmed on a case by case basis.

### ***Special debt securities tax regime***

Pursuant to Decree-Law 193/2005, of 7th November, 2005 (“Decree-Law 193/2005”), as amended from time to time, investment income paid to Beneficiaries non-resident in Portugal for tax purposes in respect of debt securities registered with a centralised securities system recognised in accordance to the Portuguese Securities Code (currently Interbolsa), as well as capital gains derived from a sale or other disposition of such Notes, will be exempt from Portuguese taxation. For the withholding tax exemption to apply, the Decree-Law requires that the Beneficiary: (i) is neither resident in Portuguese territory (nor has any registered or deemed permanent establishment therein to which interest is imputable); (ii) is not resident in the countries and territories included in the Portuguese “blacklist” (countries and territories listed in “Portaria” 150/2004, of 13th February, 2004 as amended), with the exception of central banks and governmental agencies of those blacklisted jurisdictions and (iii) has no more than 20 per cent. of its share capital held, directly or indirectly, by Portuguese residents.

For purposes of application at source of this tax exemption regime, Decree-Law 193/2005 requires completion of certain procedures and certifications. Under these procedures (which are aimed at verifying the non-resident status of the Noteholder), the Noteholder is required to hold the Notes through an account with one of the following entities: (i) a direct register entity, which is an entity affiliated with the clearing system recognised by the Portuguese Securities’ Code; (ii) an indirect register entity, which, although not assuming the role of the “direct register entities”, is a client of the latter; or (iii) entities managing an international clearing system, which are entities operating with the international market to clear and settle securities’ transactions. For the purposes of the exemption granted under Decree-Law 193/2005, the Portuguese Government has recognised each of Euroclear and Clearstream, Luxembourg as entities managing an international clearing system.

The following is a general description of the rules and procedures for the proof required for the exemption to apply at source, as they stand as at the date of this Prospectus.

#### **1. Domestic Cleared Notes - held through a direct register entity**

Direct register entities are required, for the purposes of Decree-Law 193/2005, to register the Noteholders in one of two accounts: (i) an exempt account or (ii) a non-exempt account.

Registration of the Notes in the exempt account is crucial for the exemption to apply. For this purpose, the registration of the non-resident Noteholders in an exempt account, allowing application of the exemption upfront, requires evidence of the non-resident status, to be provided by the

Noteholder to the direct register entity before or at the Income Payment Date (as defined below), as follows:

- (i) if the Noteholder is a central bank, public institution, international body, credit or financial institution, a pension fund or an insurance company, with its head office in any OECD country or in a country with which the Portuguese Republic has entered into a double tax treaty, the Noteholder will be required to prove its non-resident status by providing: (a) its tax identification; or (b) a certificate issued by the entity responsible for its supervision or registration, confirming the legal existence of the Noteholder and its head office; or (c) a declaration of tax residence issued by the Noteholder itself, duly signed and authenticated, if the Noteholder is a central bank, a public law entity taking part in the public administration (either central, regional or peripheral, indirect or autonomous of the relevant country), or an international body; or (d) proof of non-residence pursuant to the terms of paragraph (iii) below. When the Notes are held by central banks or governmental agencies, the respective proof of non-residence in Portuguese territory is provided only once, without need for periodical renewal;
- (ii) if the Noteholder is an investment fund or other collective investment scheme domiciled in any OECD country or in a country with which the Portuguese Republic has entered into a double tax treaty, it shall make proof of its non-resident status by providing any of the following documents: (a) a declaration issued by the entity responsible for its supervision or registration or by the relevant tax authority, confirming its legal existence, domicile and law of incorporation; or (b) proof of nonresidence pursuant to the terms of paragraph (iii) below;
- (iii) other investors will be required to make proof of their non-resident status by way of: (a) a certificate of residence or equivalent document issued by the relevant tax authorities; (b) a document issued by the relevant Portuguese Consulate certifying residence abroad; or (c) a document specifically issued by an official entity which forms part of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country. The Noteholder must provide an original or a certified copy of such documents and, as a rule, if such documents do not refer to a specific year and do not expire, they must have been issued within the three years prior to the relevant payment or maturity dates or, if issued after the relevant payment or maturity dates, within the following three months. The Beneficiary must inform the direct registering entity immediately of any change in the requirement conditions that may eliminate the tax exemption.

“Income Payment Date” means any date on which the Noteholders are entitled to receive interest or other investment income, either in the form of accrued interest or coupon.

## **2. Internationally Cleared Notes - held through an entity managing an international clearing system**

If the Notes are registered in an account with an international clearing system (either with Euroclear or Clearstream, Luxembourg) and the management entity of such international clearing system undertakes not to provide registration services in respect of the Notes to (i) Portuguese tax residents that do not benefit from either an exemption or waiver of Portuguese withholding tax, and (ii) to non-resident entities for tax purposes which do not benefit from the above Portuguese income tax exemption, the proof required to benefit from the exemption will be made before or at the Income Payment Date as follows:

- (i) through the presentation of a certificate, on a yearly basis, with the name of each beneficial owner, address, tax payer number (if applicable), the identity of the securities, the quantity held and also the reference to the legislation supporting the exemption or the waiver of

Portuguese withholding tax. The form of the notice is set out in Annex 1 to this “Taxation” section (which corresponds to the wording and contents of the form of certificate for exemption from Portuguese withholding tax on income from debt securities, as contained in Order (Despacho) n° 4980/2006, published in the Portuguese official diary, second series, n° 45, of 3rd March 2006, issued by the Portuguese Minister of Finance and Public Administration (currently, *Ministro das Finanças e da Administração Pública*)); or

- (ii) alternatively, through a yearly declaration that states that the beneficial owners are exempt or not subject to withholding tax. This declaration is complemented with a disclosure list, on each coupon payment date, of each beneficial owner’s identification, with the name of each beneficial owner, address, tax payer number (if applicable), the identity of the securities, the quantity held and also the reference to the legislation supporting the exemption or the waiver of Portuguese withholding tax. The form of the declaration is set out in Annex 2 to this “Taxation” section (which corresponds to the wording and contents of the form of statement for exemption from Portuguese withholding tax on income from debt securities, as contained in Regulatory Notice (Aviso) n° 3714/2006, published in the Portuguese official diary, second series, n° 59, of 23rd March, 2006, issued by the Portuguese Secretary of State for Fiscal Affairs (currently, *Secretário de Estado dos Assuntos Fiscais*).

The two documents referred to in (i) or (ii) above, which are reproduced in Annexes 1 and 2, shall be provided by the participants (i.e. the entities that operate in the international clearing system) to the direct registering entities, through the international clearing system managing entity, and must take into account the total accounts under their management relating to each Noteholder that is tax exempt or benefits from the waiver of Portuguese withholding tax.

The delivery of the documents referred to in (i) or (ii) above, which are reproduced in Annexes 1 and 2, by the participants to the respective international clearing system managing entities shall follow the procedures that are from time to time applicable for this purpose by said international clearing system managing entities.

The international clearing system managing entities shall inform the direct registering entity of the income paid to each participant for each security payment.

No Portuguese withholding tax exemption shall be granted under Decree-Law 193/2005 if the requirements set forth therein are not complied with and, consequently, the general Portuguese tax provisions shall apply as described above. This will be the case whenever the Notes are not integrated in/ cleared through Interbolsa or in any other centralised depository system for securities recognized under the Portuguese Securities Code and complementary legislation.

If the conditions for the exemption to apply are met but, due to inaccurate or insufficient information, tax was withheld, a special refund procedure is available under the special regime approved by Decree-Law 193/2005. The refund claim is to be submitted to the direct or indirect register entity of the Notes within 90 days from the date the withholding took place. A special tax form for these purposes was approved by Order (“*Despacho*”) n. 4980/2006 (2nd series), published in the Portuguese official gazette, second series, n. 45, of 3rd March, 2006 issued by the Portuguese Minister of Finance and Public Administration and is available at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

The refund of withholding tax in other circumstances or after the above 90 day period is to be claimed from the Portuguese tax authorities under the general procedures and within the general deadlines.



## **Taxation in the United Kingdom**

**The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and published HM Revenue and Customs ("HMRC") practice in the United Kingdom relating to the United Kingdom withholding tax treatment of payments of principal and interest in respect of Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Some aspects do not apply to certain classes of person (such as dealers) to whom special rules may apply. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.**

### ***Payment of interest on the Notes issued by the Bank, acting through its London branch***

Provided that it continues to be a bank within the meaning of section 991 of the Income Tax Act 2007 (the "Act"), and provided that the interest on the Notes issued by the Bank, acting through its London branch, is paid in the ordinary course of its business within the meaning of section 878 of the Act and in accordance with the published practice of HMRC, the Bank, acting through its London branch, will be entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax. Interest will not be regarded as being paid in the ordinary course of business where the borrowing relates to the capital structure of the Bank. Payments of interest on Notes which conform to any of the definitions of Tier 1, 2 or 3 capital adopted by the Prudential Regulation Authority will not be regarded as paid in the ordinary course of business for this purpose.

Payments of interest on the Notes issued by the Bank, acting through its London branch, may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes issued by the Bank, acting through its London branch, are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Act. The Luxembourg Stock Exchange is a recognised stock exchange. The Notes will satisfy this requirement if they are officially listed in Luxembourg in accordance with provisions corresponding to those generally applicable in EEA States and are admitted to trading on the Luxembourg Stock Exchange. Provided, therefore, that the Notes issued by the Bank, acting through its London branch, are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax whether or not the Bank, acting through its London branch, carries on a banking business in the United Kingdom and whether or not the interest is paid in the ordinary course of its business.

In addition, interest on the Notes issued by the Bank, acting through its London branch, may be paid without withholding or deduction on account of United Kingdom income tax where interest on these Notes is paid by a company, and, at the time the payment is made, the Bank reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on the Notes issued by the Bank, acting through its London branch, may also be paid without withholding or deduction on account of United Kingdom income tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes issued by the Bank, acting through its London branch, on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, the Noteholder may apply to HMRC for the issue of a notice to the Bank, acting through its London branch, to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

***Payment of interest on the Notes issued by BES Finance or by the Bank (otherwise than through its London branch)***

Payments of interest on these Notes which does not have UK source may be made without deduction of or withholding on account of United Kingdom income tax.

***HMRC's power to obtain information***

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid (including, in some cases, persons other than individuals) and information and documents in connection with transactions relating to the Notes and the identity of the security under which interest is paid. Information may be required to be provided by, amongst others, the holders of the Notes, persons by or through whom payments derived from the Notes are made or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

***Payment by the Bank, acting through its London branch, under the Guarantee***

Under current United Kingdom law, the Issuers understand that it is not clear whether payments made by the Bank, acting through its London branch, under the Guarantee to a Noteholder will be subject to any deduction of or withholding on account of United Kingdom income tax. In any event, if there were to be any deduction of or withholding on account of United Kingdom income tax, the Bank, acting through its London branch, would be obliged under Condition 8 of the "Terms and Conditions of the Notes" to pay additional amounts in respect of any deduction of or withholding on account of United Kingdom income tax (subject to the exceptions contained in that Condition).

**The Proposed Financial Transactions Tax ("FTT")**

The European Commission has published a proposal for a Directive for a common FTT in certain participating Member States, which may also impact persons not in participating Member States.

The FTT proposal remains subject to negotiation between participating Member States and is the subject of a legal challenge. Accordingly it is not clear when the FTT will be implemented, if at all, and what form it will take if it is implemented. However, if implemented in the form currently proposed, the FTT might apply to certain dealings in the Notes. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

**EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual

resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. At a meeting on 22 May 2013, the European Council called for the adoption of an amended Directive before the end of 2013.

On 10 April 2013, the Luxembourg Ministry of Finance announced the Luxembourg government's intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive for all interest payments made by Luxembourg financial operators to individuals resident in another Member State.

### **Luxembourg Taxation**

The following is a summary of certain material Luxembourg withholding tax consequences of purchasing, owning and disposing of the Notes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject. The following description of Luxembourg tax law is based upon the Luxembourg law and regulations as in effect and as interpreted by the Luxembourg tax authorities on the date of this Prospectus and is subject to any amendments in law (or in interpretation) later introduced, whether or not on a retroactive basis.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes.

### **Withholding Tax**

#### **(i) Non-resident holders of Notes**

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 as amended (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and related agreements concluded between Luxembourg and certain dependent and associated territories of EU Member States (i.e. Aruba, the British Virgin Islands, Guernsey, the Isle of Man, Jersey, Montserrat, Curaçao and Sint Maarten, the **Territories**), payments of interest or similar income made or ascribed by a paying agent (within the meaning of the Directive) established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity (within the meaning of article 42 of the Directive), which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will

be subject to a withholding tax unless the beneficiary of the interest payment elects for the exchange of information procedure or for the tax certificate procedure. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. The withholding tax is 35 per cent. In this respect, the Luxembourg government has recently announced that as from 1 January 2015, the withholding tax system will be replaced by the exchange of information system in Luxembourg.

**(ii) Resident holders of Notes**

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of a beneficial owner who is an individual resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

Pursuant to the Law, an individual beneficial owner who is a resident of Luxembourg and who acts in the course of the management of his/her private wealth, may opt for a final 10 per cent. levy on interest payments made by a paying agent established outside Luxembourg in a Member State of the European Union or the European Economic Area or in a jurisdiction having concluded an agreement with Luxembourg in connection with the Directive. In such case, the 10 per cent. levy is calculated on the same amounts as for the payments made by Luxembourg paying agents. The option for the 10 per cent. final levy must cover all interest payments made by paying agents to the beneficial owner during the entire civil year. The responsibility for the declaration and payment of the final 10 per cent. levy with assumed by the beneficial owner.

**ANNEX 1**

**CERTIFICATE FOR EXEMPTION FROM PORTUGUESE WITHHOLDING TAX ON INCOME ARISING FROM DEBT SECURITIES (PARAGRAPH 1 OF ARTICLE 17 OF THE SPECIAL TAX REGIME APPROVED BY THE DECREE-LAW 193/2005, OF 7 NOVEMBER)**

The undersigned Participant hereby declares that he holds debt securities covered by the special tax regime approved by Decree-Law 193/2005, of 7th November (the **Securities**), in the following securities account number ..... (the **Account**) with ..... (name and complete address of the international clearing system managing entity).

We will hold these Securities in our capacity of beneficial owner or in our capacity of intermediary, holding Securities on behalf of one or more beneficial owners, including ourselves, if applicable, all of whom are eligible for exemption at source from Portuguese withholding tax according to Portuguese legislation.

1. We are:

Name: .....

Residence for tax purposes (full address):.....

Tax ID Number: .....

2. We hereby certify that, from the date hereof until the expiry date of this certificate:

A. We are the Beneficial Owner of the following Securities:

<u>Security ISIN or Common Code</u>	<u>Security description</u>	<u>Nominal position</u>
-------------------------------------	-----------------------------	-------------------------

•

And we hereby declare that we are not liable to Portuguese withholding tax, in accordance with the applicable legislation, indicated hereafter:

Special Tax Regime approved by the Decree-Law 193/2005, of 7th November

Art. 97 of CIRC (Corporate Income Tax Code) - Exemption from withholding tax B. We are intermediaries of the following Securities:

<u>Security ISIN or Common Code</u>	<u>Security description</u>	<u>Nominal position</u>
-------------------------------------	-----------------------------	-------------------------

•

which are held on behalf of:

Name: ..... Residence for tax purposes (full address):

.....

Tax ID Number: .....and we attach a statement of beneficial ownership, which includes the justification for the exemption of personal or corporate income withholding tax.

3. We hereby undertake to provide the ..... (name of the international clearing system managing entity) with a document proving the exemption of personal or corporate income tax referred to in the attached statement of beneficial ownership, whenever the beneficial owner is not a central bank, public institution, international body, credit institution, financing company, pension fund and insurance company resident in any OECD country or in a country with which Portugal has concluded a Convention for the Avoidance of International Double Taxation, on behalf of which we hold Portuguese debt securities in the Account.
  
4. We hereby undertake to notify the (name of the international clearing system managing entity) promptly in the event that any information contained in this certificate becomes untrue or incomplete.
  
5. We acknowledge that certification is required in connection with Portuguese law and we irrevocably authorise ..... (name of the international clearing system managing entity) and its Depositary to collect and forward this certificate or a copy hereof, any attachments and any information relating to it, to the Portuguese authorities, including tax authorities.
  
6. This certificate is valid for a period of 12 months as from the date of signature:

Place:.....	Date: .....	
..... Authorised Signatory	..... Name	..... Title/Position
..... Authorised Signatory	..... Name	..... Title/Position

**APPENDIX 1**

**STATEMENT OF BENEFICIAL OWNERSHIP**

The undersigned beneficiary:

Name: .....

Address:.....

Tax identification number: .....

Holding via the following financial intermediary: .....

Name of the financial intermediary:.....

Account number: .....

The following securities: .....

Common/ISIN code:.....

Security name: .....

Payment date: .....

Nominal position: .....

1. Hereby declares that he/she/it is the beneficial owner of the above-mentioned securities and nominal position at the payment date ...../...../.....; and
2. Hereby declares that he/she/it is not liable to withholding tax, in accordance with the applicable legislation, indicated hereinafter (tick where applicable):
  - Special Tax Regime approved by the Decree-Law 193/2005, of 7th November
  - Art. 97 of CIRC (Corporate Income Tax Code) - Exemption from withholding tax

- Art. 9 of CIRC - State, Autonomous Regions, local authorities, their associations governed by public law and social security federations and institutions
- Art. 10 of CIRC - General Public Interest Companies, Charities and other non-governmental social entities; exemption by the Ministerial Regulation n° ..... , published in Diário da República .....
- Art. 16 of EBF (Tax Incentives Statute) - Pension Funds and assimilated funds
- Art. 21 of EBF - Retirement Savings Funds (FPR)
- Art. 23 of EBF - Venture Capital Investment Funds
- Art. 26 of EBF - Stock Savings Funds (FPA)
- Other legislation (indicate which)

This document is to be provided to the Portuguese tax authorities, if requested by the latter, as foreseen in the Article 17 of the Special Tax Regime approved by the Decree-Law 193/2005, of 7th November.

Authorised signatory:

Name: .....

.....

Function: .....

Signature: .....

.....



**ANNEX 2**

**STATEMENT FOR EXEMPTION FROM PORTUGUESE WITHHOLDING TAX ON INCOME ARISING FROM DEBT SECURITIES (PARAGRAPH 2 OF ARTICLE 17 OF THE SPECIAL TAX REGIME APPROVED BY THE DECREE-LAW 193/2005, OF 7 NOVEMBER)**

The undersigned Participant hereby declares that he holds or will hold debt securities covered by the special tax regime approved by Decree-Law 193/2005, of 7th November (the “Securities”), in the following securities account number ..... (the “Account”) with ..... (name and complete address of the international clearing system managing entity).

We hold or will hold these Securities in our capacity of beneficial owner or in our capacity of intermediary, holding Securities on behalf of one or more beneficial owners, including ourselves, if applicable, all of whom are eligible for exemption at source from Portuguese withholding tax according to Portuguese legislation.

1. We are:

Name: .....

Residence for tax purposes (full address): .....

Tax ID Number: .....

2. We hereby undertake to provide the ..... (name of the international clearing system managing entity) with a list of Beneficial Owners at each relevant record date containing the name, residence for tax purposes, Tax Identification Number and nominal position of Portuguese debt Securities for each Beneficial Owner, including ourselves if relevant, on behalf of which we hold or will hold Portuguese debt securities in the Account.

3. We hereby undertake to notify the ..... (name of the international clearing system managing entity) promptly in the event that any information contained in this certificate becomes untrue or incomplete.

4. We acknowledge that certification is required in connection with Portuguese law and we irrevocably authorise ..... (name of the international clearing system managing entity) and its Depository to collect and forward this certificate or a copy hereof, any attachments and any information relating to it, to the Portuguese authorities, including tax authorities.

5. This certificate is valid for a period of 12 months as from the date of signature:

Place:..... Date: .....

.....  
Authorised Signatory                      Name    Title/Position

.....  
Authorised Signatory                      Name    Title/Position

## APPENDIX 2

### LIST OF BENEFICIAL OWNERS

For:

Interest due ..... /..... /.....

Security code (ISIN or Common Code): .....

Security description: .....

Securities Clearance Account Number:.....

We certify that the above Portuguese debt securities are held on behalf of the following Beneficial Owners:

<u>Name</u>	<u>Tax identification number</u>	<u>Residence fortax purposes</u>	<u>Quantity of Securities</u>	<u>Legal basis of the exemption from withholding tax</u>	
				<u>Code(*)</u>	<u>Legislation(**)</u>

•

(\*) Indicate the legal basis of the exemption from withholding tax in accordance with the following table:

#### Code Legal basis of the exemption

1. Special tax Regime approved by the Decree-Law 193/2005, of 7th November
2. Art. 97 of CIRC (Corporate Income Tax Code) - Exemption from withholding tax
3. Art. 9 of CIRC - State, Autonomous Regions, local authorities, their associations governed by public law and social security federations and institutions
4. Art. 10 of CIRC - General Public Interest Companies, Charities and other non-governmental social entities
5. Art. 16 of EBF (Tax Incentives Statute) - Pension Funds and assimilated funds
6. Art. 21 of EBF - Retirement Savings Funds (FPR)
7. Art. 23 of EBF - Venture Capital Investments Funds
8. Art. 26 of EBF - Stock Savings Funds (FPA)
9. Other legislation

(\*\*) The fulfilment of this column is mandatory when the code “9” is indicated in the previous column.

## **SUBSCRIPTION AND SALE**

The Dealers have in an amended and restated programme agreement (the “Programme Agreement”) dated 17th July, 2013, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes” above. In the Programme Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer, sell or deliver Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer, or in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer;
- (d) or at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### **United Kingdom**

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) in relation to any Notes issued by BES Finance which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not or, in the case of the Bank would not, if it was not an authorised person, apply to BES Finance or the Bank; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948; as amended, the “FIEA”). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell, resell, or otherwise transfer any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)) or to others for re-offering sale, resale, or other transfer, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws and regulations and ministerial guidelines of Japan.

## The Cayman Islands

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that no invitation will be made to the public in the Cayman Islands to subscribe for or purchase any Notes, whether directly or indirectly.

## Portugal

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that: (i) no document, circular, advertisement or any offering material in relation to the Notes has been or will be subject to approval by the Portuguese Securities Market Commission (“Comissão do Mercado de Valores Mobiliários”, the “CMVM”); (ii) it has not directly or indirectly advertised, offered, submitted to an investment gathering procedure or sold and will not, directly or indirectly, advertise, offer, submit to an investment gathering procedure, sell, re-sell or re-offer the Notes in circumstances which could qualify as a public offer of securities pursuant to the Portuguese Securities Code (“Código dos Valores Mobiliários”, the “CVM”); (iii) it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in Portugal the Prospectus or any other offering material relating to the Notes; (iv) all offers, sales and distributions of the Notes have been and will only be made in Portugal in circumstances that, pursuant to the CVM, do not qualify as a public placement of Notes (“*oferta pública*”); (v) pursuant to the CVM, a private placement of Notes in Portugal or to Portuguese residents by public companies (“*sociedades abertas*”) or by companies that are issuers of securities listed on a market needs to be notified to the CMVM for statistical purposes; (vi) all applicable provisions of the CVM and any applicable CMVM Regulations and all relevant laws and regulations have been complied with regarding the Notes, in any matters involving Portugal and the placement or distribution of Notes in the Portuguese market. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it shall comply with all applicable laws and regulations in force in Portugal and with the Prospective Directive, regarding the placement of any Notes in the Portuguese jurisdiction or to any entities which are resident in Portugal, including the publication of a Prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

## Republic of Italy

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that the offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998, as amended (the “Financial Services Act”) and Article 34-ter,

first paragraph, letter b) of CONSOB Regulation No. 11971 of 14th May, 1999, as amended from time to time (“Regulation No. 11971”); or

- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29th October, 2007 (as amended from time to time) and Legislative Decree No. 385 of 1st September, 1993, as amended (the “Banking Act”); and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

*Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (i) and (ii) above, the subsequent distribution of Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.*

## **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuers, the Bank (where the Issuer is BES Finance) nor any of the other Dealers shall have any responsibility therefor.

None of the Issuers, the Bank (where the Issuer is BES Finance) and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Authorisation

The update of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of BES Finance dated 21st January, 1997, 2nd February, 1998, 12th May, 1999, 16th August, 1999, by a Unanimous Written Resolution of the Board of Directors of BES Finance dated 3rd September, 1999, by resolutions of the Board of Directors of BES Finance dated 14th August, 2000, 24th July, 2001, 23rd July, 2003, 5th August, 2004, 30th November, 2005, 16th February, 2007, 11th January, 2008, 12th February, 2009, 10th December, 2009, 7th April, 2010, 10th May, 2010, 25th October, 2010, 31st October, 2011, 18th May, 2012 and 8th July, 2013. The giving of the guarantee in respect of any Notes issued by BES Finance and the update of the Programme has been authorised by resolutions of the Board of Directors of the Bank dated 23rd January, 1997, 17th September, 1998, 9th August, 1999, 28th July, 2000, 23rd July, 2001, 17th July, 2002, 21st July, 2003, 30th July, 2004, 23rd November, 2005, 7th February, 2007, 9th January, 2008, 11th February, 2009, 14th December, 2009 and 2009, 25th October, 2010 and 26th October, 2011, 16th February, 2012 and 3rd July, 2013.

### Approval, admission to trading and listing of Notes on the Luxembourg Stock Exchange

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the Official List of the Luxembourg Stock Exchange. The Regulated Market of the Luxembourg Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Trustee's reliance on Certificates

The Trust Deed provides that any certificate or report of the auditors or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

### Documents Available

So long as Notes are outstanding under the Programme, copies of the following documents will, when published, be available from the registered office of each of the Issuers and from the specified offices of the Paying Agents for the time being in London, Lisbon and Luxembourg:

- (i) the constitutional documents of each Issuer (in each case in English);
- (ii) the press release of the Bank dated 7th May, 2013 entitled "Banco Espírito Santo Group Activity and Results in 1Q13" presenting the unaudited consolidated financial results for the three month period ended on 31st March, 2013;
- (iii) the audited consolidated financial statements of the Bank in respect of the financial years ended 31st December, 2012 and 31st December, 2011 (with an English translation thereof), in each case together with the audit reports prepared in connection therewith;

- (iv) the audited non-consolidated financial statements of BES Finance in respect of the financial years ended 31st December, 2012 and 31st December, 2011, in each case together with the audit reports prepared in connection therewith;
- (v) the most recently published audited annual non-consolidated financial statements and the most recently published unaudited interim (semi-annual) non-consolidated financial statements of BES Finance in each case together with any audit or review reports prepared in connection therewith;
- (vi) the most recently published audited annual consolidated financial statements of the Bank and the most recently published unaudited interim (semi-annual) consolidated financial statements of the Bank (with an English translation thereof) in each case together with any audit or review reports prepared in connection therewith;
- (vii) the Programme Agreement, the Agency Agreement, the Interbolsa Notes Agency Agreement, the Trust Deed, any agreement appointing a Common Representative, the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Notes, the Coupons and the Talons;
- (viii) a copy of this Prospectus; and
- (ix) any future prospectuses, information memoranda, supplements and Final Terms to this Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Prospectus, each Final Terms relating to Notes which are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and each document incorporated by reference are available on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)).

### **Clearing Systems**

The Notes (other than Interbolsa Notes) have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records in respect of such Notes). The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. The Interbolsa Notes will be cleared through LCH Clearnet, S.A., the clearing system operated at Interbolsa; the appropriate identification reference for a Tranche of Interbolsa Notes will be specified in the applicable Final Terms. At the date hereof Interbolsa only accepts to clear notes denominated in euro. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Financial Statements**

The financial statements of the BES Group are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

### **Significant or Material Change**

Save as disclosed in section 11 (*Recent Developments*) of the chapter entitled "Banco Espírito Santo, S.A. and BES Group" found on pages 191 and 192 of this Prospectus, there has been no significant change in the financial or trading position of the Bank and the Group since 31st March, 2013. There has been no significant change in the financial or trading position of BES Finance since 31st December, 2012.



There has been no material adverse change in the financial position or prospects of BES Finance or the Bank or the Group since 31st December, 2012.

## **Litigation**

In August 2007, an officer from BES was accused by the Public Prosecutor for the crime of trading in influence in connection with the performance of his duties. The court's final decision was taken in 2012 and absolved the officer. However, the Public Prosecutor appealed such decision (although having considered during the trial that there was no evidence of the crime). The final decision from the Court of Appeal is expected during the second half of 2013.

In December 2008, several Portuguese banks (the “**banks**”) granted a loan to Banco Privado Português, S.A. (“**BPP**”) secured by a guarantee of the Portuguese State (the “**State Guarantee**”). Upon BPP's default, the banks claimed under the State Guarantee. In April 2011, the Privado Clientes – Associação de Defesa dos Clientes do Banco Privado Português (BBP Clients Protection Association) commenced judicial proceedings requesting payments made by the Portuguese State to the banks under the State Guarantee to be declared void, and requesting the restitution to the Portuguese State of any amounts received by the banks under the State Guarantee, which amounts to €80 million in respect of BES. BES filed its defence in June 2011. The process is pending to be heard on first instance before the court.

BES and other entities of the BES Group challenged (before court and outside) the decision to call the Investors Compensation System (“**SII**”) due to BBP's insolvency. At the time BPP's financial difficulties began, the legal framework for the SII did not cover investors' rights in BPP under or in relation to contracts or asset management with guaranteed return, offshore vehicles, or civil liabilities. A piece of legislation was subsequently passed, the constitutionality and retroactive application of which are in dispute, which covered these. BES and other entities of the BES Group are co-plaintiffs in an administrative proceeding on this issue, filed against SII, currently under court review. In October 2011, the SII issued a statement draft regarding the obligations that are the subject of the court proceeding by BES and other entities of the BES Group, which was quantified by SII at EUR20,997,622 with respect to BES only and EUR24,453,648 for the joint BES Group entities which are SII members, including BES. BES and the BES Group entities contested this decision in the hearing, and although they were in disagreement, they have made the payment and commenced, together with other financial institutions, a court proceeding to challenge the decision to call the SII. The court decision is still pending.

Administrative sanctioning proceedings have been carried out by the Spanish Ministry of Economy against Banco Espírito Santo, S.A (branch of Spain) for failure to comply with certain administrative obligations under the applicable Money Laundering legislation in Spain. The outcome of such proceeding (imposing certain penalties to the entity) has been appealed in administrative jurisdiction by Banco Espírito Santo, S.A (branch of Spain). The decision on the appeal is still pending.

Two of BES' directors and three BES' employees are currently under an investigation – conducted by the Portuguese Public Prosecutors' Office – on insider trading. Several managers and employees of BES provided statements to the Portuguese Public Prosecutor's Office, in order to explain the rationality of the operations under investigation and to evidence that in fact no inside information was revealed or used. BES is actively co-operating with the authorities with the intention of providing a full clarification of the facts in question and of their absolute compliance with the law.

## **Auditors**

KPMG and Associados, SROC, S.A. Edifício Monumental, Avenida Praia da Vitória, 71A, 11° 1069 - 006, Lisbon, Portugal, chartered accountants and registered auditors, a member of Ordem dos Revisores Oficiais de Contas, are the appointed auditors of BES Finance and have audited the respective financial statements

for the years ending 31st December, 2012 and 2011 prepared in accordance with International Financial Reporting Standards.

KPMG and Associados, SROC, S.A. Edificio Monumental, Avenida Praia da Vitória, 71A, 11° 1069 - 006, Lisbon, Portugal, chartered accountants and registered auditors, a member of Ordem dos Revisores Oficiais de Contas, are the appointed auditors of the Bank and have audited the respective financial statements for the years ending 31st December, 2012 and 31st December, 2011 prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The auditors of the Issuer have no material interest in the relevant Issuer.

### **Bank of Portugal requirements**

No Subordinated Notes shall be redeemed unless in compliance with the applicable capital adequacy regulations of the Bank of Portugal from time to time in force. At the date hereof such redemption may not occur within five years and one day from the Issue Date of the relevant Notes and may only occur with the prior consent of the Bank of Portugal.

### **Certain of the Dealers transacting with the Issuers or their affiliates**

Certain of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with any of the Issuers and/or their respective affiliates and have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of any of the Issuers and/or their respective affiliates. If any of the Dealers or their affiliates has a lending relationship with any of the Issuers, certain of those Dealers or their affiliates routinely hedge, and certain other of those Dealers or their affiliates may hedge their credit exposure to such Issuer and/or their respective affiliates consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the relevant Issuer's and/or their respective affiliates' securities, including potentially the Notes. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Yield**

The yield for any particular Series of Notes will be specified in the applicable Final Terms and will be calculated on the basis of the compound annual rate of return if the relevant Notes were to be purchased at the Issue Price on the Issue Date and held to maturity. Set out below is an example formula for the purposes of calculating the yield of Fixed Rate Notes. The Final Terms in respect of any Floating Rate Notes will not include any indication of yield.

$$\text{IssuePrice} = \frac{\text{Coupon}}{m} * \frac{1 - \left[ \frac{1}{\left(1 + \frac{\text{Yield}}{m}\right)^{n * m}} \right]}{\frac{\text{Yield}}{m}} + \left[ \text{FinalRedemptionAmount} * \frac{1}{\left(1 + \frac{\text{Yield}}{m}\right)^{n * m}} \right]$$

Where:

“Coupon” means the annual coupon as specified in the applicable Final Terms;

“Yield” means the annual yield to maturity;

“m” means the number of interest payments in a year; and

“n” means the number of years to maturity.

Set out below is a worked example illustrating how the yield on a Series of Fixed Rate Notes could be calculated on the basis of the above formula. It is provided for purposes of illustration only and should not be taken as an indication of prediction of the yield for any Series of Notes; it is intended merely to illustrate the way which the above formula could be applied.

Where:

m = 2

n = 6

Coupon = 3.875 per cent.

Issue Price = 99.392 per cent.

Final Redemption Amount = 100 per cent.

$$99.392 = \frac{3.875}{2} * \frac{1 - \left[ \frac{1}{\left(1 + \frac{\text{Yield}}{2}\right)^{6 * 2}} \right]}{\frac{\text{Yield}}{2}} + \left[ 100 * \frac{1}{\left(1 + \frac{\text{Yield}}{2}\right)^{6 * 2}} \right]$$

Yield = 3.99 per cent. (calculated by iteration)

The yield specified in the applicable Final Terms in respect of a Series of Notes will not be an indication of future yield.

The issue price and the amount of the relevant Notes will be determined before the filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions.

## THE ISSUERS

### **Registered Head Office of Banco Espírito**

#### **Santo, S.A.**

Avenida da Liberdade, 195  
1250-195 Lisbon  
Portugal  
Tel. +351 21 350 11 57  
Fax. +351 21 350 11 80

### **Cayman Islands Branch of BES**

PO BOX 10507 APO  
Grand Cayman, Cayman Islands  
Tel. +351 21 350 86 87  
Fax. +351 21 350 89 32

### **London Branch of BES**

10 Paternoster Square  
London EC4M 7AL  
United Kingdom

### **Luxembourg Branch of BES**

1 rue, Schiller  
L-2519 Luxembourg  
Tel. +352 27 36 25 13  
Fax. +352 27 36 25 11

### **BES Finance Ltd.**

c/o Maples Corporate Services Limited  
PO Box 309, Umland House  
Grand Cayman  
KY1-1104  
Cayman Islands  
Tel. +351 21 350 86 87  
Fax. +351 21 350 89 32

### **Madeira Branch of BES**

Avenida Arriaga, n° 44  
Edifício Arriaga, 1° Andar  
9000-064 Funchal  
Portugal  
Tel. +351 21 350 86 87  
Fax. +351 21 350 89 32

## **REGISTERED HEAD OFFICE OF THE GUARANTOR**

### **Banco Espírito Santo, S.A.**

Avenida da Liberdade 195  
1250 - 142 Lisboa  
Portugal

## **LONDON BRANCH OF THE GUARANTOR**

### **Banco Espírito Santo, S.A.**

10 Paternoster Square  
London EC4M 7AL  
United Kingdom

## TRUSTEE

The Bank of New York Mellon  
One Canada Square  
London E14 5AL United Kingdom

## COMMON REPRESENTATIVE

### **Vieira de Almeida & Associados Sociedade de Advogados R.L.**

Av. Eng. ° Duarte Pacheco, 26  
1070-110 Lisboa  
Portugal

## AGENT

**The Bank of New York Mellon**  
One Canada Square  
London E14 5AL United Kingdom

## PORTUGUESE PAYING AGENT

**Banco Espírito Santo, S.A.**

Avenida da Liberdade, 195  
1250-195 Lisbon  
Portugal

**PAYING AGENT**

**The Bank of New York Mellon (Luxembourg) S.A.**

2-4, rue Eugène Ruppert  
L-2453 Luxembourg

**LEGAL ADVISERS**

*To Banco Espírito Santo, S.A. both as Issuer  
and Guarantor as to Portuguese law*

**Vieira de Almeida & Associados  
Sociedade de Advogados R.L.**  
Av. Eng. ° Duarte Pacheco, 26  
1070-110 Lisboa  
Portugal

*To the Issuers as to Cayman Islands law*

**Maples and Calder**  
11th Floor, 200 Aldersgate Street  
London EC1A 4HD  
United Kingdom

*To the Dealers as to English law*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD  
United Kingdom

*To the Issuer and the Guarantor as to English law*

**Freshfields Bruckhaus Deringer LLP**  
65 Fleet Street  
London EC4Y 1HS  
United Kingdom

*To Banco Espírito Santo, S.A. as to Luxembourg law*

**Arendt & Medernach**

14, rue Erasme  
L-2082 Luxembourg

**AUDITORS**

*To BES Finance Ltd.*

**KPMG & Associados, SROC, S.A.**  
Edifício Monumental  
Avenida Praia da Vitória, 71A, 11°  
1069 - 006 Lisboa  
Portugal

*To Banco Espírito Santo, S.A.*

**KPMG & Associados, SROC, S.A.**  
Edifício Monumental  
Avenida Praia da Vitória, 71A, 11°  
1069 - 006 Lisboa  
Portugal

## DEALERS

**Banca IMI S.p.A.**

Largo Mattioli 3  
20121 Milan  
Italy

**Banco Espírito Santo S.A.**

Avenida da Liberdade 195  
1250 - 142 Lisboa  
Portugal

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

Rua Alexandre Herculano, 38  
1269-161 Lisboa  
Portugal

**Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**BNP Paribas**

10 Harewood Avenue  
London NW1 6AA  
United Kingdom

**Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Commerzbank Aktiengesellschaft**

Kaiserstraße 16 (Kaiserplatz)  
60311 Frankfurt am Main  
Germany

**Crédit Agricole Corporate and Investment Bank**

9 Quai du Président Paul Doumer  
92920 - Paris La Defense Cedex  
France

**Credit Suisse Securities (Europe) Limited**

One Cabot Square  
London E14 4QJ  
United Kingdom

**Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**Goldman Sachs International**

Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

**HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

**J.P. Morgan Securities plc**

23 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Landesbank Baden-Württemberg**

Am Hauptbahnhof 2  
70173 Stuttgart  
Germany

**Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

**Mitsubishi UFJ Securities International plc**

Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9AJ  
United Kingdom

**Morgan Stanley & Co. International plc**

25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**Nomura International plc**

1 Angel Lane  
London EC4R 3AB  
United Kingdom

**The Royal Bank of Scotland plc**

135 Bishopsgate  
London EC2M 3UR  
United Kingdom

**UBS Limited**

1 Finsbury Avenue  
London EC2M 2PP  
United Kingdom

**Société Générale**

29 boulevard Haussmann  
75009 Paris  
France

**UniCredit Bank AG**

Arabellastrasse 12  
81925 Munich  
Germany

**LUXEMBOURG LISTING AGENT**  
**KBL European Private Bankers S.A.**  
43A Boulevard Royal L-2955 Luxembourg