Best – Banco Electrónico de Serviço Total, S.A.

Annual Report 2013

BEST – Banco Electrónico de Serviço Total, S.A.

Annual Report 2013

INDICE:

Management Report – 2013

Banco Best, founded in 2001, has a wide range of products and services of a universal bank, supporting its customers in the identification of savings solutions and available investment opportunities, as well as in all aspects related to their financial needs and management. With a strong technological nature and open architecture, Banco Best also offers a set of services that allow customers to have the best of the new information technologies on internet, namely a faster and more efficient treatment of processes and transactions and the access to innovative services that smooth the relationship between the customers and the bank.

The bank business strategy is therefore focused on serving the investment needs of a private clients' market segment that has a need for more sophisticated and diversified financial services but at the same time covering their financial needs. Clients such as companies and foundations can also benefit from this business strategy.

The bank has a share capital of EUR 63 million and its shareholders are Grupo Banco Espírito Santo (GBES) companies and Espírito Santo Financial Group with a 75% share and Saxo Bank A/S, a Danish bank that holds 25% of Banco Best's capital.

Banco Best is headquartered in Lisbon, Praça Marquês de Pombal and does not have ordinary branches, therefore its financial products and services are provided on a large number of channels such as:

- Internet, through *Website* (www.bancobest.pt) and *Mobile Banking*;
- Investment Centers located in Lisbon, Oporto, Braga, Aveiro, Leiria, Évora and Faro, that have a *Personal Financial Advisors* (PFA) network;
- Contact Center *(Phone Banking)*.

In addition, Banco Best also has a network of promoters and financial agents, called *Financial Advisors* (FA's) that work as service providers and according to the legal dispositions on the subject. Some of these *Financial Advisors* have their own offices identified as "FA Offices" where they develop their activity as per the suitable legal dispositions.

I – Economical Overview

Contrarily to the expected, 2013 ended with the financial and economical indicators fairly normalized, considering the global financial crisis environment that started in 2007. The systemic risk theme almost disappeared from the financial markets in the main developed economies.

Throughout 2013 the North American economy accelerated the economic growth levels and the euro zone managed to pull out from the recession of middle 2012. The Japanese economy showed signs of recovery – it's worth mentioning the inflation increase, especially since it has been inexistent for decades – while the Chinese one suffered a growth slowdown, although above the 7% per year threshold.

The central banks' performance theme continued to be dominant both over the economical performance and the financial markets behavior. While last May the North American Federal Reserve pre-announced their intention of decreasing the monthly rate of quantitative easing and started to implement it only in December, the Central Bank of Japan joined the North American Central Bank and the Bank of England to implement the quantitative easing policies. The non conventional monetary policies were widened and the central banks are fully aware of their important role in supporting the deleverage process originated by the global financial crisis.

The sovereign debt crisis in the euro zone had positive developments; the peripheral countries showed a significant resilience to both a few political crisis (Italy in February and Portugal in July) and some entropy from the European leaderships in finding long lasting institutional changes. The European Central Bank continued to give its verbal support, even though there was a cut of 25 basis points during the last quarter of 2013. The European economy was able to overcome a period of crisis, although the weak growth levels, together with the inflation percentage below the 2% goal, are reasons of concern due to the deflation risks.

The economical and financial situation of the emerging markets started to show some deterioration signs that can have negative impacts in the developed countries economies somewhere in the future. The performance of those markets somehow supported the world economy development during the darkest years of the financial crisis, since they were the main beneficiaries of the central banks cash increase during those years, but the announced intention of the Federal Reserve to reduce the quantitative easing policies initiated a movement of capital massive exit of some emerging countries. This has been the main cause of the significant value decrease of the currencies of those countries and, consequently, more restrictive monetary policies. Countries like Argentina or Turkey were particularly affected both in currency terms and stock markets behavior.

As for Portugal, and after significant decrease in the economic activity, the two last quarters of 2013 were of economical growth. On the other hand, the Portuguese public debt reached lower yield levels, anticipating normalization during 2014 and representing an important positive sign that Portugal will leave the current readjustment program. In spite of the uncertainty regarding this situation, the evolution of some indicators, like the decrease of the unemployment rate, anticipate the reversal of the readjustment cycle, essential for the return to a more comfortable financial situation and financing capability.

In short, 2013 started somewhat pessimist but went much better than expected. The financial markets registered highly positive performances, especially in the financial assets related with the developed countries stock markets. The non fulfillment of the expected risks and the abundant capital in the worldwide markets, together with some positive surprises, were more than enough to make 2013 a positive year.

II – Operations in 2013

In a context of financial and economical recovery, Banco Best registered a positive evolution in the main indicators: customers' assets total volume grew 18% reaching 2.309 million Euros at the end of 2013; the total gross volume of granted credit was of 163 million Euros, a 15% growth versus the previous year.

Banco Best B/S liquidity indicators remained at comfortable levels, in spite of the strong competition for the Portuguese customers' deposits during the year. For the full 2013 year, a 10% decrease of customers' deposits volume, together with the 16% growth of granted credit net volumes triggered the ratio of transformation of deposits into credit to 58%, staying at a controlled level and below the average levels for the national banking sector.

During 2013 Banco Best continued to reinforce its leadership in the financial products and services offer in Portugal reflected on some received awards:

1) Best Site / App Mobile (ACEPI) - Banco Best's Mobile Banking Service was the winner of this ecommerce category at the Awards "*Navegantes XXI*" 2013 Ceremony organized by ACEPI (*Associação do Comércio Electrónico e Publicidade Interactiva*), edition that distinguished the best ecommerce and digital marketing projects. Considered the most complete in the Portuguese market, with all the day-to-day operations available, it also has the most complete mobile Stock Exchange service of the market that allows the customers to follow the main worldwide stock exchanges and negotiate more than 1.200 securities from their mobile phones.

2) Best B2B Site (ACEPI) – in the same awards edition the solutions B2B and White Label won the "Best B2B Site" category. With these solutions Banco Best act as a worldwide wealth management services provider, being the sole example in Portugal of banking services and technology export.

3) Best Technological Projects in Portugal (CIO Awards 2013) – the search engine "Best Guru" was awarded as the Best Technological Project developed in Portugal at the 2013 Edition of CIO Awards promoted by IDC (worldwide leader in marketing intelligence). "Best Guru" is a search engine for thousands of investment products that allows an easy, fast and direct access to Banco Best's asset management and trading products portfolio, including over 2000 investment funds from

40 management companies, around 1800 certificates, more than 1000 shares from the main international markets, and bonds and ETF's from all over the world.

Banco Best continued to develop a set of actions with the purpose of increasing and developing the level of the investors' financial literacy and contribute to improve their financial knowledge. Under the slogan "More knowledge, better investments" BEST organized a series of events, from North to South of Portugal, mainly conference-lunches, conferences, seminars and workshops, both with BEST employees as speakers, as well as with renowned international and national specialists: Mr. Cornelius Luca (North American quantitative analysis specialist and published author), Mr. Christian Balteo (Nordea Investments Funds), Mr. Francisco Avillez (AGROGES Scientific Coordinator) and Mr. Duarte Mineiro (ES Ventures). There was a total of 53 events (in average 1 per week), 45% of them took place outside Lisbon and Oporto areas, targeting both Banco Best customers and non-customers.

Regarding the investment funds BEST kept their strategy to widen and diversify the management companies and investment funds offer. Currently there are about 2.200 investment funds from 48 management companies being distributed to the general public, not to mention 3.900 additional investment funds being distributed exclusively to the Wholesale and International institutional markets. In 2013 we can highlight the introduction in the Portuguese market of 4 new management companies: BTG Pactual, Alken, Legg Mason and Mirabaud.

Still in the subject, there was also the release of 3 new possible investment strategies: 1) earnings distribution, from Schroder European Dividend Maximiser, with the purpose of distributing 2% earnings on a quarterly basis; 2) European shares, from the Alken European Opportunities fund, managed by the British financial boutique Alken, exclusively dedicated to managing European shares; 3) flexible bonds, from the Jupiter Dynamic Bond, allowing to invest in any bonds segment to keep the profitability goals. Following this, and in a macro economical and financial context much more positive than expected, there was a natural change in the investment funds types most subscribed by the customers, mainly subscribing to those funds with several investment strategies in shares and credit (flexible and/or high yield).

This way, Banco Best remained the leader in the distribution of foreign investment funds in Portugal with a market share of 34%, according to the latest data release regarding 2013 2nd quarter.

As for investment insurance Banco Best registered a 78% growth in the capitalization insurances' volume of assets under management. As for unit linked type products there was a growth in the Best Premium tailor made products, exclusive for individual customers. This Best Premium range of products, introduced in 2011, allows customers that subscribe to them, usually customers with certain characteristics and portfolios, to have access to a more personalized relationship with the bank in what regards the allocation of their investments.

The Portfolio Management Service performed positively in all its risk profiles. The profitability was over 5% in the conservative profile, whereas the dynamic one surpassed the 13% mark.

Following previous years strategy, during 2013 Banco Best kept the goal of diversifying its business lines namely through some partnerships with institutional customers, registering in the Wholesale and International businesses customer segment an investment funds volume growth of 20% for the full year.

In the trading area there was a stronger activity in the online negotiation of financial instruments at regulated and non-regulated markets, the two areas where Banco Best develop its activity of orders reception and transmission.

According to the Securities and Exchange Commission data, the volume of the orders received through the Internet (online segment) registered an annual growth of 44%. During 2013 BEST also registered an increase of its market share in the spot market online negotiation segment, with an annual growth of 58% and a market share of 8,7%, the highest annual value ever reached by the bank in this particular segment.

Banco Best also did well in the CTT – Correios de Portugal S.A. IPO with a market share of 9,3%, representing a growth of a full 8 p.p. comparing to other public offers in 2006 and 2008.

In 2013 there was a growing interest from the investors in the debt securities products. Banco Best was able to achieve a market share of 8% in the Mota-Engil 6,85% 2016 Bonds Public Offer operation and 38% in the Benfica SAD 7,25% April 2016 Bonds Public Offer operation.

Banco Best, in partnership with its shareholder Saxo Bank A/S, reinforced the leadership position in the online derivatives segment in the Portuguese market, with a total share of 34%.

At the end of 2013 the volume of customers' deposits was of 27 million Euros, a 10% decrease versus the previous year due to the customers' preference for investing in funds and off balance securities. Nevertheless there was a 60% growth in customers' net assets entries when comparing to the previous year.

BEST's deposits offer remained in the areas of term deposits, currency deposits and those with several types of earnings, being noteworthy the "Depósito Já", a term deposit available for new customers with an attractive interest rate and the possibility of anticipating the earnings to the starting date of the deposit.

During 2013 there were several initiatives with the purpose of increasing customer loyalty, an important aspect for Banco Best's activity, mainly by maximizing the advantages of the new technologies and internet. Following these initiatives it was possible to register a 16% increase in the number of customers that use Banco Best as their first bank. Offers like "Conta +Ordenado" (salary account) with a wide range of free services, as well as all the commercial campaigns that took place all year, contributed to this significant growth. In complement, the programs *Member-Get-Member* were reformulated and adjusted to the characteristics of the customers' different segments in order to point their attractiveness and efficiency out. With this different and innovative approach the recommending Customer is entitled not only to the offering of a specific benefit, but mainly to the exclusive access to a complementary offer during an extended period.

At the end of 2013 the granted credit total result was of 162 million Euros gross, a 15% increase. The past due credit ratio remained at a shy level representing 2,5% of the total clients level. The Current Credit Account solutions were the main reason why the granted credit grew in 2013, solutions that are very flexible since the warranties are based on the financial assets deposited by the customers in the Bank and allow the existence of a fast mobilization with very competitive interest rates. The Margin Account also registered an 86% growth. It allows our customers to easily increase the investment opportunities through a dynamic system of risk/margins protection.

There was also a growth of 18% in the credit cards sold in 2013 with an increase of 11% in their utilization, in spite of the decrease on consumer spending in Portugal. In July, and associated to the American Express Gold card, we launched the new program of double reward based on the card utilization. The customers can choose each time how they want to receive those benefits, if as miles in the Tap Victoria program or as cash back directly credited to their card accounts.

Along 2013 Banco Best kept its policy of diversifying its business lines by promoting the growth of the asset management area that aims to fulfill some specific needs of a set of national and international institutional customers. There are some technological tools specially developed for this business area, as well as an individualized offer of products and services. The several institutional customers that already work with BEST represent, individually, significant turnovers with 441 million Euros of assets under custody, a 20% growth versus the end of the previous year.

Banco Best continued to actively recruit Financial Advisors to its external commercial network with an increase of 170, doubling the number of FA's when comparing to the previous year. This growth led to an increase of the training sessions for new employees (5 sessions in 2012 versus 12 sessions in 2013), aiming for an adequate integration of them in the bank's organization. Consequently, the number of trainers certified by the bank also increased.

Regarding external training for the personal financial advisors and other operational areas employees, there were several initiatives with some external partners in order to provide training in the areas of English learning (35 employees), IT – Internal Systems (*Siebel Marketing*); Certifications in Projects Professional Management (25 employees), training for trainers Skills (12 employees) and some workshops in attitude.

Banco Best also supported a set of other initiatives in commercial skills, like Advisory Sales and Quality Customer Service.

Internally, Banco Best provided more than 10,7 thousand hours of training to its employees in 2013, 39% above 2012.

Regarding 2013 Financial Statements we can highlight the total assets 6% reduction in the Balance Sheet, comparing with the previous year reaching 360 million Euros in December 31st 2013. This assets volume reduction derives mainly from the 68% reduction of the bank's investments in bonds from 81 million Euros in 2012 to 26 million Euros in 2013. In the liabilities item there was a reduction of the customers' deposits, presenting a preference for investing in out of balance financial products, such as investment funds and securities. The current and term deposits had a decrease of 10%, with a total volume of 298 million Euros in December 31st 2013.

There was a significant reduction of the net interest income (-1.6 million Euros) comparing with the previous year, due to the customers' preference for the out of balance sheet financial products, which generate commissions instead of interest margin and to the reduced level of the interest rates. The referred reduction was totally compensated by an almost identical increase in the commissions received in 2013 (+1,7 million Euros net). There was also around 1 million Euros decrease in the other operating results, mainly in the international area, that were totally compensated by the exchange/currency re-evaluation and allowed a net income of 32 million Euros, almost the same as in 2012.

The reduction of the activity total costs was possible due to cost restraints with the staff, 6% reduction versus 2012, and to the 4% savings in administrative expenses, representing, together with the depreciation installments, a total reduction of 752 thousand Euros versus the previous year.

As for credit provisions and impairment Banco Best had a favorable impact of 100 thousand Euros in the Profit and Loss. At the end of the year there was 96% past due credit coverage by credit provisions.

In 2013 the share capital of Banco Best was reinforced due to the policy of full incorporation of the previous year net results. So, the Core Tier 1 ratio reached 21,8% in December 2013, remaining at comfortable levels and higher than the legally required minimum regulatory values.

The high level of the Portuguese corporate tax, led to an increase of the P&L provisions for corporate taxes to 4.7 million Euros. The net profit of 2013 was of 10,2 million Euros, above the 8,5 million Euros registered in 2012.

In short, as 2013 BEST financial results main indicators we can highlight 53% of Cost to Income ratio, 20% of ROE and 10,2 million Euros of Net Profit, representing a growth of 21% versus 2012.

As far as social responsibility is concerned Banco Best continued to support “Obra do Padre Gregório”, a private institution located in São Pedro de Sintra that shelters young girls in a boarding regimen. Currently they have around 30 girls living there, aged between 4 and 18 years old. Banco Best provided not only financial support but also cooperation, by involving its employees in some voluntary work – we called it “Best People in Action”. Banco Best is a social responsible brand aiming to spread a spirit of solidarity in the community and also to involve its customers in its support to this institution. The initiative taken to celebrate the solidarity day was to offer “Obra do Padre Gregório” the commissions of that day paid by the customers.

III – Shareholders and Corporate Bodies

In 2013 the Shareholders of Banco Best suffered no changes, being:

Acionistas	Nº de ações	%
Espírito Santo Tech Ventures, SGPS, SA	21 398 220	33,96543%
Banco Espírito Santo, SA	20 181 680	32,03441%
Saxo Bank A/S	15 750 000	25,00000%
Espírito Santo Financial Group, SA	5 670 000	9,00000%
Banco Espírito Santo de Investimento, SA	100	0,00016%
Total	63 000 000	100,00000%

BEST Corporate Bodies in December 31st 2013 were as follows:

General Meeting

Rui Manuel Duarte Sousa da Silveira (Chairman)

Henrik Klæbel (Secretary)

Board of Directors

Ricardo Espírito Santo Silva Salgado (Chairman)

Isabel Maria Ferreira Possantes Rodrigues Cascão (Vice-Chairman)

Marília Boavida Correia Cabral (Member)

Pedro Alexandre Lemos Cabral das Neves (Member)

Francisco José Valente Hipólito dos Santos (Member)

Isabel Maria Carvalho de Almeida Bernardino (Member)

Rasmus Hagstad Lund (Member)

Fiscal Board

José Manuel Macedo Pereira (President)

Luís Manuel Santos Botelho (Member)

Feliciano Pereira (Member)

Elísio Armando da Cruz Cardoso (Alternative Member)

Statutory Auditor

KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., (Statutory Audit Firm) represented by Fernando Gustavo Duarte Antunes, statutory auditor number 1233. (Permanent)
Jean-Eric Gaign, statutory auditor number 1013 (Alternative)

Secretary

Eugénio Fernando de Jesus Quintais Lopes

The Corporate Bodies were elected at the General Meeting held in March 26th 2013.

IV – Relevant Facts

Due to the reorganization and simplification of the shareholding structures of Espírito Santo Tech Ventures, SGPS, SA and Banco Espírito Santo, SA, there will be a change in the shareholder's structure of Banco Best until the end of 2014 1st Quarter, during which the shares held by those entities will be transferred to Banco Espírito Santo, SA, which by turn will transfer to Banco Espírito Santo dos Açores, SA e BES VIDA, Companhia de Seguros, SA a lot of 100 shares each.

V – Outlook

The macro-economical perspectives for 2014 are of a slight recovery and are less negative than initially thought. Although some macroeconomic indicators show improvement in the Portuguese economy, 2014 still brings many challenges which consequences are difficult to foresee. The efforts developed for rebalancing the Portuguese budget have been focused on the individuals' tax increases, presenting a challenge to Banco Best when it comes to national customers' savings.

Regardless these uncertainties and the negative aspects of the Portuguese economy, Banco Best plans to develop its activity in the following vectors:

- Consolidation of the International and Wholesale businesses, mainly in the institutional customers Asset Management and Trading services;
- Increase the diversification and independence of its offer, keeping a wide range of Asset Management and Trading products and services aiming to fulfill the needs of diversification of financial assets and currencies and allowing customers to cease the investment opportunities that come along in this constantly changing financial environment;

- Improvement of the communication between the bank and its customers making it more clear, direct and customized. The website is being completely reformulated and the range of products and services widened and made available also in this channel;
- Continuous monitoring of the economic and financial environment allowing the fast adjustment of the Asset Management and Trading products and services offer to the best opportunities that come along;

On the other hand, the effort of cost cut and control is to be maintained, aiming to improve the bank's efficiency levels in a market with strong competition.

VI - Proposal for results allocation

As per the Societies Code regulations it is proposed to the Shareholders General Meeting the approval of the net profits totaling 10.236.285,90 Euros (ten million, two hundred and thirty six thousand, two hundred and eighty five Euros and ninety cents) positive to be allocated as follows:

- 1.023.628,59 Euros for the Legal Reserve
- 9.212.657,31 Euros retained earnings to partially offset former years losses.

VII – Concluding remarks

While concluding the Management Report for 2013, the Board of Directors wishes to express its recognition of the cooperation of all who have contributed towards achieving the established goals in the performance of their duties:

- The monetary and financial authorities and supervisory bodies, notably the Bank of Portugal, Securities and Exchange Commission and Portuguese Insurance Institute for their permanent collaboration and support;
- Our customers for their trust and preference;
- Our shareholders for their constant support and interest in the activity of the bank;
- The General Meeting Members, the Fiscal Board and the Statutory Auditor for their permanently constructive involvement;
- Our Employees for their commitment, motivation, willingness and professional competence;

Lisbon, February 28th 2014

Board of Directors:

Ricardo Espírito Santo Silva Salgado

Isabel Maria Ferreira Possantes Rodrigues Cascão

Isabel Maria Carvalho de Almeida Bernardino

Francisco José Valente Hipólito dos Santos

Rasmus Hagstad Lund

Marília Boavida Correia Cabral

Pedro Alexandre Lemos Cabral das Neves

BALANCE SHEET (in '000 €)	Dec-13 Actual	Dec-12 Previous year	△ YoY in €	 in %
ASSETS				
Cash and deposits at central banks	95	0	95	
Deposits with banks	49.527	91.039	(41.512)	-46%
Financial assets held for trading	3	0	3	
Other financial assets at fair value through profit or loss	0	0	0	
Available-for-sale financial assets	25.942	80.990	(55.048)	-68%
Loans and advances to banks	120.014	70.234	49.780	71%
Loans and advances to customers	159.615	138.137	21.478	16%
Held to maturity investments	0	0	0	
Financial assets with repurchase agreements	0	0	0	
Hedging derivatives	0	0	0	
Non-current assets held for sale	0	0	0	
Property and equipment	0	0	0	
Other tangible assets	1.378	1.664	(286)	-17%
Intangible assets	5	7	(2)	-29%
Investments in associates	0	0	0	
Current income tax assets	0	0	0	
Deferred income tax assets	472	589	(117)	-20%
Other assets	3.094	2.171	923	43%
		0		
TOTAL ASSETS	**360.145**	**384.831**	**(24.686)**	**-6%**
LIABILITIES				
Financial liabilities held for trading	167	27	140	519%
Deposits from banks	13.758	18.190	(4.432)	-24%
Due to customers	276.960	306.306	(29.346)	-10%
Debt securities	0	0	0	
Financial liabilities associated to transferred assets	0	0	0	
Hedging derivatives	34	52	(18)	-35%
Non-current liabilities held for sale	0	0	0	
Provisions	820	976	(156)	-16%
Current income tax liabilities	2.025	3.350	(1.325)	-40%
Deferred income tax liabilities	0	0	0	
Instruments representing capital	0	0	0	
Subordinated debt	0	0	0	
Other liabilities	4.147	4.266	(119)	-3%
TOTAL LIABILITIES	**297.911**	**333.167**	**(35.256)**	**-11%**
Share Capital	63.000	63.000	0	0%
Share premium	(8)	(8)	0	0%
Revaluation reserves	154	(179)	333	-186%
Other reserves and retained earnings	(11.148)	(19.604)	8.456	-43%
Own Stock	0	0	0	
Profit for the year	10.236	8.455	1.781	21%
TOTAL EQUITY	**62.234**	**51.664**	**10.570**	**20%**
TOTAL LIABILITIES + EQUITY	**360.145**	**384.831**	**(24.686)**	**-6%**
Core Tier 1	**50.587**	**40.533**	**10.054**	**25%**
Solvency ratio	**21,8%**	**15,4%**	**6,36p,p,**	

	Dec-13	Dec-12	△ YoY	
PROFIT AND LOSS ACCOUNT (in '000 €)	**Actual**	Previous year	**in €**	**in %**
Interest income	6.614	12.176	(5.562)	-46%
Interest expense	2.089	6.029	(3.940)	-65%
Net interest income	**4.525**	**6.147**	**(1.622)**	**-26%**
Dividends	24	30	(6)	-20%
Commissions and other similar income	18.445	15.633	2.812	18%
Commissions and other similar expenses	5.800	4.692	1.108	24%
Gains and losses in financial assets and foreign Exchange	14.784	14.837	(53)	0%
Banking income	**31.978**	**31.955**	**23**	**0%**
Staff expenses	6.045	6.397	(352)	-6%
Other administrative expenses	10.441	10.830	(389)	-4%
Depreciation	422	433	(11)	-3%
Provisions net of reversals	(157)	176	(333)	-189%
Loan impairment net of reversals and recoveries	260	2579	(2.319)	-90%
Other financial assets' impairment net of reversals	0	0	0	
Other assets' impairment net of reversals	0	0	0	
Income before tax	**14.967**	**11.540**	**3.427**	**30%**
Tax	4.731	3.085	1.646	53%
Current tax	4.614	3.674	940	26%
Deferred tax	117	(589)	706	-120%
Income after tax	**10.236**	**8.455**	**1.781**	**21%**
Of which: Income after tax on descontinued operations	0	0	0	
Net profit	**10.236**	**8.455**	**1.781**	**21%**

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

These consolidated financial statements are a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(in thousands of euro)

	Notes	31.12.2013	31.12.2012
Interest and similar income	5	6 614	12 176
Interest expense and similar charges	5	2 089	6 029
Net interest income		**4 525**	**6 147**
Dividend income		24	30
Fee and commission income	6	18 445	15 633
Fee and commission expenses	6	(5 800)	(4 692)
Net gains from financial assets and financial liabilities at fair value through profit or loss	7	(135)	(209)
Net gains from available-for-sale financial assets	8	17	115
Net gains from foreign exchange differences	9	15 113	14 124
Other operating income and expense	10	(211)	807
Operating income		**31 978**	**31 955**
Staff costs	11	6 045	6 397
General and administrative expenses	12	10 441	10 830
Depreciation and amortisation	20 e 21	422	433
Provisions net of reversals	25	(157)	176
Loans impairment net of reversals	18	260	2 579
Operating expenses		**17 011**	**20 415**
Profit before income tax		**14 967**	**11 540**
Income tax			
Current tax	26	4 614	3 674
Diferred tax	26	117	(589)
Profit for the year		**10 236**	**8 455**
Earnings per share:			
Basic (in euro)	13	0,16	0,13
Diluted (in euro)	13	0,16	0,13

The following notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

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

(in thousands of euro)

	31.12.2013	31.12.2012
Profit for the year	**10 236**	**8 455**
Other comprehensive income for the year, net from taxes		
Changes in fair value, net from taxes	333	3 220
	333	**3 220**
Total comprehensive income for the year	**10 569**	**11 675**

The following notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2013 AND 2012

(in thousands of euro)

	Notes	31.12.2013	31.12.2012
Assets			
Cash and deposits at central banks		95	-
Deposits with banks	14	49 527	91 039
Financial assets held for trading	15	3	-
Available-for-sale financial assets	16	25 942	80 990
Loans and advances to banks	17	120 014	70 234
Loans and advances to customers	18	159 615	138 137
Property and equipment	20	1 378	1 664
Intangible assets	21	5	7
Deferred income tax assets	26	472	589
Other assets	22	3 094	2 171
Total Assets		**360 145**	**384 831**
Liabilities			
Financial liabilities held for trading	15	167	27
Deposits from banks	23	13 758	18 190
Due to customers	24	276 960	306 306
Derivatives for risk management purposes	19	34	52
Provisions	25	820	976
Current income tax liabilities		2 025	3 350
Other liabilities	27	4 147	4 266
Total Liabilities		**297 911**	**333 167**
Equity			
Share capital	28	63 000	63 000
Fair value reserve	29	154	(179)
Other reserves and retained earnings	29	(11 156)	(19 612)
Profit for the year		10 236	8 455
Total Equity		**62 234**	**51 664**
Total Equity and Liabilities		**360 145**	**384 831**

The following notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

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

(in thousands of euro)

	Share Capital	Fair value reserve	Other reserves and retained earnings	Profit for the year	Total Equity
Balance as at 31 December 2011	**63 000**	**(3 399)**	**(26 671)**	**7 059**	**39 989**
Other movements recognised directly in Equity:					
Changes in fair value (see Note 29)	-	3 220	-	-	3 220
Profit for the year	-	-	-	8 455	8 455
Total gains and losses recognised in the year	-	3 220	-	8 455	11 675
Transfer to reserves and retained earnings	-	-	7 059	(7 059)	-
Balance as at 31 December 2012	**63 000**	**(179)**	**(19 612)**	**8 455**	**51 664**
Other movements recognised directly in Equity:					
Changes in fair value (see Note 29)	-	333	-	-	333
Profit for the year	-	-	-	10 236	10 236
Total gains and losses recognised in the year	-	333	-	10 236	10 569
Transfer to reserves and retained earnings	-	-	8 455	(8 455)	-
Other movements	-	-	1	-	1
Balance as at 31 December 2013	**63 000**	**154**	**(11 156)**	**10 236**	**62 234**

The following notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

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

(in thousands of euro)

	Notes	31.12.2013	31.12.2012
Cash flow from operating activities			
Interest and similar income received		5 806	12 494
Interest expense and similar charges paid		(2 197)	(6 134)
Fees and commission received		18 445	15 633
Fees and commission paid		(5 800)	(4 692)
Cash payments to employees and suppliers		(17 265)	(16 914)
		(1 011)	**387**
Changes in operating assets and liabilities:			
Acquisitions of financial assets at fair value through profit or loss		137	224
Sale of financial assets at fair value through profit or loss		(135)	(209)
Loans and advances to banks		(49 560)	80 008
Deposits from banks		(4 326)	1 148
Loans and advances to customers		(21 490)	(34 156)
Due to customers		(29 344)	(115 041)
Derivatives for risk management purposes		(18)	(4 653)
Other operating assets and liabilities		341	31 993
Net cash from operating activities before income tax		**(105 406)**	**(40 299)**
Income taxes paid		(5 939)	(280)
		(111 345)	**(40 579)**
Net cash from investing activities			
Dividends received		24	30
Acquisition of available-for-sale financial assets		(224 217)	(377 403)
Sale of available-for-sale financial assets		279 275	337 004
Acquisition of tangible and intangible assets		(134)	(333)
		54 948	**(40 702)**
Net changes in cash and cash equivalents		**(56 397)**	**(81 281)**
Cash and cash equivalents at the beginning of the year		88 101	155 258
Effect of exchange rate changes on cash and cash equivalents		15 113	14 124
Net changes in cash and cash equivalents		(56 397)	(81 281)
Cash and cash equivalents at the end of the year		**46 817**	**88 101**
Cash and cash equivalents includes:			
Deposits with banks	14	49 527	91 039
Mandatory deposits with Central banks [(a)]		(2 710)	(2 938)
Total		**46 817**	**88 101**

[(a)] BEST mandatory reserves are constituted indirectly through Banco Espírito Santo, S.A (see Note 14)

The following notes form an integral part of these financial statements

BEST – Banco Eletrónico de Serviço Total, S.A.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2013

(Amounts expressed in thousands of euro, except when indicated)

NOTE 1 – ACTIVITY

BEST – Banco Electrónico de Serviço Total, S.A. (Bank or BEST) is a commercial bank headquartered in Portugal. The Bank is authorised by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal.

BEST was established by public deed on 9 May 2001 with a share capital of euro 32 422 thousands, and began its activity on 25 June that year. In 2002 and 2003 BEST increased its share capital to euro 43 000 thousands and euro 55 000 thousands, respectively (see Note 28). In 2005, there was a new capital increase to euro 61 000 thousands and in 2006 there was an increase to euro 63 000 thousands.

The Bank is dedicated to raising funds from third parties, in the form of deposits or other funds, which, together with their own resources, invests in providing loans, securities and other assets. It also provides other banking services.

In order to combine the dynamism and innovative capacity of BEST and the experience of Banco Espirito Santo SA (BES), it was celebrated a contract in 2001 with BES, to ensure the functioning of the administrative and operational areas of BEST.

Since its establishment, the Bank is part of BES Group, being its financial statements fully consolidated by BES, headquartered in Avenida da Liberdade, n. º 195, Lisbon. Since 2009, BEST is consolidated by Saxo Bank by the equity method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005 and Regulation no. 1/2005 from the Bank of Portugal, Banco Electrónico de Serviço Total, S.A. (BEST or the Bank) is required to prepare its financial statements in accordance with Adjusted Accounting Standards ("NCA"), as established by the Bank of Portugal.

NCA are composed by all the standards included in the International Financial Reporting Standards ("IFRS") as adopted for use in the EU, with the exception of issues regulated by the Bank of Portugal such as loans impairment and recognition in retained earnings of the adjustments related to pensions during the transition period.

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

These individual financial statements as at and for the year ended 31 December 2013 were prepared in accordance with Adjusted Accounting Standards (NCA), which includes the IFRS adopted for use in the EU until 31 December 2013.
The accounting policies applied by the Bank in the preparation of these financial statements as at 31 December 2013 are consistent with the ones used in the preparation of the annual financial statements as at and for the year ended 31 December 2012.

In addition and as described in Note 34, in the preparation of the Financial Statements as at 31 December 2013, the Bank adopted the accounting standards issued by IASB and IFRIC interpretations, effective since 1 January 2013. The accounting policies adopted by the Bank in the preparation of the Financial Statements are in accordance with those described in that note. The adoption of these new standards and interpretations had no material effect in the Bank's Financial Statements.

The accounting standards and interpretations recently issued but not yet effective and that the Bank has not yet adopted in the preparation of its financial statements can also be analysed in Note 34.

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

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

These financial statements were approved in the Board of Directors meeting held on 17 March 2014.

2.2. Foreign currency translation

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

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

2.3. Derivative financial instruments and hedge accounting

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

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

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

Hedge accounting

- Classification criteria

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

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

- Fair value hedge

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

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

- Cash flow hedge

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

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

During the years covered by these financial statements the Bank did not have any transactions classified as cash flow hedge.

Embedded derivatives

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

2.4. Loans and advances to customers

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

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

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

In accordance with the documented strategy for risk management, the Bank contracts derivative financial instruments to manage certain risks of a portion of the loan portfolio, without applying, however the provisions of hedge accounting as mentioned in Note 2.3. These loans are measured at fair value through profit or loss, in order to eliminate a measurement inconsistency resulting from measuring loans and derivatives for risk management purposes on different basis (accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in Note 2.5.

Impairment

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

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

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

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

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

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

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

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

According to NCA, loans value should be adjusted on prudent and righteousness criteria in order to reflect at all time its realisable value. This impairment adjustment must be equal or greater than the determined under the regulation no. 3/95, from the Bank of Portugal, which establishes the minimum reference values for generic and specific provisions.

When a loan is considered by the Bank as uncollectible and an impairment loss of 100% was recognised, it is written off against the related allowance for loan impairment.

2.5. Other financial assets

Classification

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

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

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

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

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

Note 15 includes a summary of the assets and liabilities that were classified at fair value through profit or loss at inception.

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

- *Held-to-maturity investments*

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

- *Available-for-sale financial assets*

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

Initial recognition, measurement and derecognition

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

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

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

Subsequent measurement

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

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

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

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

Reclassifications between categories

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

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

Impairment

In accordance with NCA, the Bank assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

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

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

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

2.6. Sale and repurchase agreements

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

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

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.5. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

2.7. Financial liabilities

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

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales.

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

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

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

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

2.8. Offsetting financial instruments

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

2.9. Equity instruments

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

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

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

2.10. Property and equipment

Property and equipment are measured cost less accumulated depreciation and impairment losses. The value includes expenditure that is directly attributable to the acquisition of the items.

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

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

	Number of years
Buildings	35 of 50
Improvements in leasehold property	10
Cumputer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

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

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

2.11. Intangible assets

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

Costs that are directly associated with the development of identifiable specific software applications by the Bank, and that will probably generate economic benefits beyond one year, are recognised as intangible assets.

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

2.12. Leases

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

Operating leases

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

Finance leases

- As lessee

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

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, for the amount equal to the net investment made in the leased assets.

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

2.13. Employee benefits

Bonus to employee and the board of Directors

In accordance with IAS 19 – Employee benefits, the bonus payment to employees and, eventually, to the Board of Directors are recognised in the income statement in the year to which they relate.

2.14. Income tax

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

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

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

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

2.15. Provisions

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

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

2.16. Interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

For derivative financial instruments, except for (i)derivatives for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.17. Fee and commission income

Fees and commissions are recognised as follows:

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

2.18. Dividend income

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

2.19. Earnings per share

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

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

2.20. Cash and equivalents

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

Cash and cash equivalents exclude restricted balances with central banks (which are made through Banco Espírito Santo, S.A.).

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

3.1. Impairment of available-for-sale assets

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

(i) Equity securities: significant decline in market value in relation to the acquisition cost or market value below the acquisition cost for a prolonged period;
(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

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

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

3.2. Fair value of derivatives

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

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

3.3. Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.4, in accordance with the minimum reference values for generic and specific provisions, determined under the regulation no. 3/95, from the Bank of Portugal.

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

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

3.4. Held-to-maturity investments

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

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

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

3.5. Income taxes

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

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

The Tax Authorities are entitled to review the Bank' determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, are confident that there will be no material tax assessments within the context of the financial statements.

NOTE 4 – SEGMENTS REPORTING

Considering that the Bank does not hold equity securities or debt securities publicly traded, in accordance with the paragraph 2 of the IFRS 8 - Operating Segments, the Bank does not provide information on the segments.

NOTE 5 – NET INTEREST INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from available-for-sale financial assets	1 149	-	1 149	3 729	-	3 729
Interest from deposits with banks	549	-	549	3 687	-	3 687
Interest from loans and advances	4 915	-	4 915	4 709	-	4 709
Interest from derivatives for risk management purposes	-	1	1	-	51	51
	6 613	1	6 614	12 125	51	12 176
Interest expense and similar charges						
Interest from amounts due to customers	2 011	-	2 011	5 780	36	5 816
Interest from deposits from central banks and other banks	61	-	61	164	-	164
Interest from derivatives for risk management purposes	-	17	17	-	49	49
	2 072	17	2 089	5 944	85	6 029
	4 541	**(16)**	**4 525**		**(34)**	**6 147**

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.3, interests from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policy described in Notes 2.4, 2.5 and 2.7.

NOTE 6 – NET FEE AND COMMISSIONS INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Fee and commission income		
From banking services	10 248	8 507
From transactions with securities	7 250	6 350
From commitments assumed to third parties	1	12
Other fee and commission income	946	764
	18 445	**15 633**
Fee and commission expenses		
From transactions with securities	312	311
From banking services rendered by third parties	650	612
Other fee and commission expenses	4 838	3 769
	5 800	**4 692**
	12 645	**10 941**

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Derivative financial instruments						
Exchange rate contracts	31	167	(136)	57	277	(220)
Interest rate contracts	27	10	17	12	56	(44)
Equity/Index contracts	-	-	-	4 787	576	4 211
	58	**177**	**(119)**	**4 856**	**909**	**3 947**
Financial assets and liabilities at fair value through profit and loss						
Financial assets [1]						
Loans and Advances to costumers	-	16	(16)	15	-	15
Financial liabilities [1]						
Due to customers	-	-	-	6	4 177	(4 171)
	-	**16**	**(16)**	**21**	**4 177**	**(4 156)**
	58	**193**	**(135)**	**4 877**	**5 086**	**(209)**

[1] Includes the fair value change of hedged of assets and liabilities at *fair value option*.

NOTE 8 – NET GAINS FORM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	-	1	(1)
Issued by other entities	211	194	17	222	106	116
	211	**194**	**17**	**222**	**107**	**115**

NOTE 9 – NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

	31.12.2013			31.12.2012		
(in thousands of euro)	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	16 784	1 671	15 113	15 668	1 544	14 124
	16 784	**1 671**	**15 113**	**15 668**	**1 544**	**14 124**

This balance includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.2.

NOTE 10 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

(in thousands of euro)	31.12.2013	31.12.2012
Other operating income	**599**	**2 093**
Other operating expenses		
Direct and indirect taxes	110	98
Contributions to the Deposits Guarantee Fund	104	88
Membership and donations	1	20
Other	595	1 080
	810	**1 286**
	(211)	**807**

Direct and indirect taxes include an amount of euro 38.0 thousands relating to the cost associated with the introduction of a Banking levy (31 December 2012: euro 43.0 thousands), created by Law No. 55-A/2010 of 31 December (see Note 26).

NOTE 11 – STAFF COSTS

As at 31 December 2013, the number of Bank employees is 166 (31 December 2012: 161).

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Wages and salaries	4 818	5 140
Mandatory social charges	1 074	1 043
Other costs	153	214
	6 045	**6 397**

The costs with salaries and other benefits attributed to the Board of Directors are presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Board of Directors		
Salaries and other short-term benefits	276	262
Pension costs	42	38
Bonus	-	74
	318	**374**
Fiscal Board	10	10
	328	**384**

As at 31 December 2013, loans granted to the Board of Directors of the Bank amounted to euro 6.0 thousands (31 December 2012: euro 3.2 thousands).

The number of the Bank employees, per professional category, is analysed as follows:

	31.12.2013	31.12.2012
Senior management	33	33
Specific functions	113	111
Administrative functions	20	17
	166	**161**

NOTE 12 – GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Advertising costs	2 397	2 112
Communication costs	1 062	1 198
Rental costs	1 387	1 451
Travelling and representation costs	246	202
Consumables	75	83
Water, energy and fuel	175	164
Transportation	16	26
Insurance costs	112	91
Maintenance and related services	45	34
Training	53	53
IT services	1 852	2 422
Legal costs	4	4
Studies and consultations	211	-
Temporary work	-	14
Electronic payment systems	217	150
Security Services	2	2
Independent work	26	49
Call Center	-	874
Consultants and external auditors	174	40
Transfer of other resources	1 143	1 285
Other costs	1 244	576
	10 441	**10 830**

The outstanding lease instalments related to the non-cancellable operational leasing contracts were as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 1 year	45	295
1 to 5 years	413	435
	458	**730**

The fees invoiced during the years 2013 and 2012 by the statutory auditors are presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Audit service fees	14	15
Other assurance services arising from the external audit funcion	20	17
Other services	10	-
Total amount of invoiced services	**44**	**32**

NOTE 13 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(in thousands of euro)

	31.12.2013	31.12.2012
Profit attributable to the equity holders of the Bank	10 236	8 455
Weighted average number of ordinary shares outstanding (thousands)	63 000	63 000
Basic earnings per share attributable to the equity holders of the Bank (in euros)	**0,16**	**0,13**

Diluted earnings per share

The diluted earnings per share is calculated considering the profit attributable to the equity holders of the Bank and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

NOTE 14 – DEPOSITS WITH BANKS

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Deposits with banks in Portugal		
Repayable on demand	18 237	57 036
Uncollected cheques	-	280
	18 237	**57 316**
Deposits with banks abroad		
Other deposits	31 290	33 723
	31 290	**33 723**
	49 527	**91 039**

In accordance with article 10 of Regulation no 2818/98 of the European Central Bank and through the circular letter with reference no 204/DMRCF/DMC of 5 June 2001, the Bank of Portugal authorised BEST to constitute the mandatory reserves indirectly through Banco Espírito Santo, S.A. Monthly BEST settles through a deposit account in BES the amount concerning to the mandatory reserves to be constituted. As at 31 December 2013, deposits at Central Banks amounted to euro 2 710 thousands (31 December 2012: euro 2 938 thousands) and have earned interest at an average rate of 0.5% (31 December 2012: 0.9%).

Uncollected cheques in Portugal were sent for collection during the first working days following the reference dates.

NOTE 15 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Financial assets held for trading		
Derivative financial instruments with positive fair value	3	-
Financial liabilities held for trading		
Derivatives financial instruments with negative fair value	167	27

As at 31 December 2013 and 2012, derivative financial instruments can be analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Forward						
- buy	7 163	3	167	1 086	-	27
- sell	7 328			1 114		
Currency Swaps						
- buy	98	-	-	-	-	-
- sell	99			-		
	14 688	3	167	2 200	-	27
TOTAL	**14 688**	**3**	**167**	**2 200**	**-**	**27**

As at 31 December 2013 and 2012, the analysis of trading derivatives by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013		31.12.2012	
	Notional	Fair value	Notional	Fair value
Up to 3 months	14 688	(164)	2 200	(27)
	14 688	**(164)**	**2 200**	**(27)**

NOTE 16 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	1 411	198	-	-	1 609
Issued by other entities	23 817	40	(84)	-	23 773
Shares	560	-	-	-	560
Other variable income securities	167	-	-	(167)	-
Balance as at 31 December 2013	**25 955**	**238**	**(84)**	**(167)**	**25 942**
Bonds and other fixed income securities					
Issued by government and public entities	1 350	225	-	-	1 575
Issued by other entities	79 259	34	(438)	-	78 855
Shares	560	-	-	-	560
Other variable income securities	167	-	-	(167)	-
Balance as at 31 December 2012	**81 336**	**259**	**(438)**	**(167)**	**80 990**

[1] Acquisition cost relating to shares and other variable income securities and amortised cost relating to debt securities.

In accordance with the accounting policy described in Note 2.5, the Bank assesses periodically whether there is objective evidence of impairment on the available-for-sale financial assets, following the judgement criteria's described in Note 3.1.

The securities pledged as collateral by the Bank are analysed in Note 30.

During the years 2012 and 2011 no changes occurred in impairment losses of available-for-sale financial assets.

As at 31 December 2013 and 2012, the analysis of available-for-sale assets by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	16 006	11 222
3 to 12 months	3 749	60 000
1 to 5 years	3 916	3 795
More than 5 years	1 711	5 413
Undetermined	560	560
	25 942	**80 990**

The analysis of the available-for-sale financial assets, by quoted and unquoted securities, is presented as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	1 609	-	1 609	1 575	-	1 575
Issued by other entities	1 042	22 731	23 773	3 696	75 159	78 855
Shares	-	560	560	-	560	560
	2 651	**23 291**	**25 942**	**5 271**	**75 719**	**80 990**

NOTE 17 – LOANS AND ADVANCES TO BANKS

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Loans and advances to banks in Portugal		
Repayable on demand	120 014	70 234
	120 014	**70 234**
	120 014	**70 234**

The main loans and advances to banks in Portugal, as at 31 December 2013, bear interest at an average annual interest rate of 0.67% (31 December 2012: 2.13%).

As at 31 December 2013 and 2012, the analysis of loans and advances to banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	120 014	70 234
	120 014	**70 234**

NOTE 18 – LOANS AND ADVANCES TO COSTUMERS

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euros)

	31.12.2013	31.12.2012
Domestic loans		
Corporate		
Commercial lines of credit	45 934	46 686
Retail		
Consumer and other loans	102 009	83 364
	147 943	**130 050**
Foreign loans		
Retail		
Consumer and other loans	10 503	9 070
	10 503	**9 070**
Overdue loans and interest		
Up to 3 months	2 400	92
3 to 12 months	128	1 006
1 to 3 years	1 605	970
More than 3 years	194	174
	4 327	**2 242**
	162 773	**141 362**
Impairment losses	**(3 158)**	**(3 225)**
	159 615	**138 137**

As at 31 December 2013 and 2012, the analysis of loans and advances to customers by the period to maturity is presented as follows:

(in thousands of euros)

	31.12.2013	31.12.2012
Up to 3 months	39 717	28 045
3 to 12 months	103 374	88 965
1 to 5 years	12 920	18 272
More than 5 years	2 435	3 838
Undetermined	4 327	2 242
	162 773	**141 362**

The changes occurred in impairment losses of loans and advances to customers are presented as follows:

	(in thousands of euros)	
	31.12.2013	31.12.2012
Balance at the beginning of the year	3 225	704
Charge for the year	2 575	2 718
Charge off	(327)	(58)
Write back for the year	(2 315)	(139)
Balance at the end of the year	**3 158**	**3 225**

Additionally, as at 31 December 2013, the Bank has a provision for general banking risks in the amount of euro 699 thousands (31 December 2012: euro 855 thousands), which in accordance to NCA is presented as a liability (see Note 25).

Loans and advances to customers by interest rate type are analysed as follows:

	(in thousands of euro)	
	31.12.2013	31.12.2012
Variable Rate	162 773	141 362
	162 773	**141 362**

NOTE 19 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 31 December 2013 and 2012, the fair value of the derivatives for risk management purposes can be analysed as follows:

				(in thousands of euro)
	31.12.2013		31.12.2012	
	Hedging	Total	Hedging	Total
Derivatives for risk management purposes				
Derivatives for risk management purposes - Liabilities	(34)	(34)	(52)	(52)
	(34)	**(34)**	**(52)**	**(52)**
Fair value component of assets and liabilities being hedged				
Financial assets				
Loans and advances to customers	35	35	51	51
	35	**35**	**51**	**51**
	35	**35**	**51**	**51**

As mentioned in the accounting policy described in Note 2.3, derivatives for risk management purposes include hedging derivatives and derivatives contracted to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss (and that were not designated as hedging derivatives).

As at 31 December 2013, the ineffectiveness of fair value hedge operations amounted to a profit of euro 2 thousands (at 31 December 2012 these operations did not present ineffectiveness) recognised in income statement.

Hedging derivatives

As at 31 December 2013, the fair value hedge relationships present the following features:

(in thousands of euro)

31.12.2013							
Derivative	**Hedged Item**	**Hedged risk**	**Notional**	**Fair value of derivative [2]**	**Changes in the fair value of the derivative in**	**Fair value component of the hedged item [1]**	**Changes in the fair value of the hedged item in the year [1]**
Interest Rate Swap	Loans and advances to customers	Interest rate	532	(34)	18	35	(16)
			532	**(34)**	**18**	**35**	**(16)**

[1] Attibutable to the hedged risk
[2] Includes accrued interest

(in thousands of euro)

31.12.2012							
Derivative	**Hedged Item**	**Hedged risk**	**Notional**	**Fair value of derivative [2]**	**Changes in the fair value of the derivative in**	**Fair value component of the hedged item [1]**	**Changes in the fair value of the hedged item in the year [1]**
Interest Rate Swap	Loans and advances to customers	Interest rate	600	(52)	(15)	51	15
			600	**(52)**	**(15)**	**51**	**15**

[1] Attibutable to the hedged risk
[2] Includes accrued interest

As at 31 December 2013 and 2012, the analysis of fair value hedge transactions by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013		31.12.2012	
	Notional	**Fair value**	**Notional**	**Fair value**
1 to 5 years	532	(34)	-	-
More than 5 years	-	-	600	(52)
	532	**(34)**	**600**	**(52)**

NOTE 20 – PROPERTY AND EQUIPMENT

As at 31 December 2013 and 2012 this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Property		
Improvements in leasehold property	1 178	1 208
	1 178	**1 208**
Equipments		
Computer equipment	1 527	1 495
Furniture and office equipments	1 457	1 412
Motor vehicles	108	105
Fixtures	504	508
Security equipment	58	56
Other	1	1
	3 655	**3 577**
Work in progress	**33**	**-**
	4 866	**4 785**
Accumulated depreciation	(3 488)	(3 121)
	1 378	**1 664**

The movement in this balance was as follows:

(in thousands of euro)

	Property	Equipment	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2011	**1 235**	**3 269**	**4**	**4 508**
Acquisitions	4	213	116	333
Disposals	(31)	(25)	-	(56)
Transfers	-	120	(120)	-
Balance as at 31 December 2012	**1 208**	**3 577**	**-**	**4 785**
Acquisitions	-	72	59	131
Disposals	(33)	(17)	-	(50)
Transfers	3	23	(26)	(0)
Balance as at 31 December 2013	**1 178**	**3 655**	**33**	**4 866**
Depreciation				
Balance as at 31 December 2011	**516**	**2 235**	**-**	**2 751**
Depreciation of the year	119	308	-	427
Other movements	(31)	(26)	-	(57)
Saldo a 31 de dezembro de 2012	**604**	**2 517**	**-**	**3 121**
Depreciation of the year	114	303	-	417
Disposals	(33)	(17)	-	(50)
Balance as at 31 December 2013	**685**	**2 803**	**-**	**3 488**
Net amount as at 31 December 2013	**493**	**852**	**33**	**1 378**
Net amount as at 31 December 2012	**604**	**1 060**	**-**	**1 664**

NOTE 21 – INTANGIBLE ASSETS

As at 31 December 2013 and 2012 this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Acquired to third parties		
Software	**11 108**	**11 105**
Accumulated amortisation	**(11 103)**	**(11 098)**
	5	**7**

The movement in this balance was as follows:

(in thousands of euro)

	Software	Other	Total
Acquisition cost			
Balance as at 31 December 2011	**11 103**	**-**	**11 103**
Acquisitions:			
Acquired from third parties	2	-	2
Balance as at 31 December 2012	**11 105**	**-**	**11 105**
Acquisitions:			
Acquired from third parties	3	-	3
Balance as at 31 December 2013	**11 108**	**-**	**11 108**
Amortisations			
Balance as at 31 December 2011	**11 092**	**-**	**11 092**
Amortisations of the year	6	-	6
Balance as at 31 December 2012	**11 098**	**-**	**11 098**
Amortisations of the year	5	-	5
Balance as at 31 December 2013	**11 103**	**-**	**11 103**
Net amount as at 31 December 2013	**5**	**-**	**5**
Net amount as at 31 December 2012	**7**	**-**	**7**

NOTE 22 – OTHER ASSETS

As at 31 December 2013 and 2012, the balance other assets is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Debtors and other deposits	1 268	505
Collateral deposits placed	546	-
Other assets	14	14
Income	1 175	982
Deferred costs	56	670
Other transactions pending settlement	35	-
	3 094	**2 171**

NOTE 23 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)	31.12.2013	31.12.2012
Domestic		
Deposits with banks in Portugal	5 130	9 259
Repurchase agreements	-	3 311
Other funds	1	21
	5 131	**12 591**
International		
Deposits	8 596	5 599
Other funds	31	-
	8 627	**5 599**
	13 758	**18 190**

As at 31 December 2013 and 2012, the analysis of deposits from banks by the period to maturity is presented as follows:

(in thousands of euro)	31.12.2013	31.12.2012
Up to 3 months	13 758	14 878
3 to 12 months	-	3 312
	13 758	**18 190**

NOTE 24 – DUE TO COSTUMERS

The balance due to customers is analysed as follows:

(in thousands of euro)	31.12.2013	31.12.2012
Repayable on demand	206 317	190 294
Time deposits	68 255	113 432
Savings accounts	1 149	1 165
Other funds	1 239	1 415
	276 960	**306 306**

As at 31 December 2013 and 2012, the analysis of the amounts due to customers by the period to maturity is as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Repayable on demand	**206 317**	**190 294**
With agreed maturity		
Up to 3 months	61 256	106 922
3 to 12 months	6 891	6 285
1 to 5 years	6	257
More than 5 years	2 490	2 548
	70 643	**116 012**
	276 960	**306 306**

NOTE 25 – PROVISIONS

As at 31 December 2013, the balance of Provisions includes General banking risk provisions in the amount of euro 699 thousands (31 December 2012: euro 855 thousands) and other provisions in the amount of euro 121 thousands. The balance of provisions presents the following movements:

(in thousands of euro)

	Restructuring provision	Other provisions	Total
Balance as at 31 December 2011	**679**	**121**	800
Charge for the year / (Charge-off)	176	-	176
Balance as at 31 December 2012	**855**	**121**	**976**
Charge for the year / (Charge-off)	(157)	-	(157)
Other	1	-	1
Balance as at 31 December 2013	**699**	**121**	**820**

NOTE 26 – INCOME TAXES

The Bank is subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes.

Income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected in equity items. In these situations, the corresponding tax is also charged to equity, not affecting the net profit for the year.

The Bank determined its current income tax for the years ended 31 December 2013 and 2012, on the basis of a nominal tax rate of 25% plus a Municipal Surcharge ("Derrama Municipal") of 1.5%, according to Law no. 107-B/2003, of 31 December and Law no. 2/2007, of 15 January (which approved the Local Finance Law, "Lei das Finanças Locais"). For year 2012, there was an additional fee up to 5% on the State surcharge ("Derrama Estadual") over taxable income above euro 7.5 million and euro 10 million, according to Law No. 64-B/2011, of 30 December (2012 State Budget Law, "Lei do Orçamento do Estado para 2012").

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date.

For the year 2012, deferred tax calculation was broadly calculated based on an aggregate rate of 29%, resulting from the sum of the corporate tax rate (25%), a Municipal Surcharge rate (1.5%) and an additional fee of 2.5% on the State surcharge provided for under the additional Stability and Growth Program measures ("Programa de Estabilidade e Crescimento (PEC)") approved by Law no. 12-A/2010, of 30 June. For the year 2013, deferred tax was broadly calculated based on an aggregate rate of 28%, resulting from the sum of the corporate tax rate (23%) approved by Law No. 2/2014, of 16 January, Municipal Surcharge rate (1.5%) and an average expected rate of State Surcharge (3.5%).

The Portuguese Tax Authorities are entitled to review the annual tax return of the Bank for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors, is confident that there will be no material differences arising from tax assessments within the context of the financial statements.

The current and deferred tax is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Current tax	4 614	3 674
Deffered tax	117	(589)
Total income tax recognised in results	**4 731**	**3 085**

As at 31 December 2013 the Bank recognised deferred tax assets in amount of euro 472 thousands due to temporary differences arising from provision for credit losses (31 December 2012: euro 589 thousands)

The reconciliation of the income tax rate can be analysed as follows:

(in thousands of euro)

	31.12.2013		31.12.2012	
	%	Amount	%	Amount
Profit before taxes		**14 967**		**11 540**
Banking levy		38		43
		15 005		**11 583**
Statutory tax rate	30.0		29.5	
Income tax calculated based on the statutory tax rate		4 502		3 417
Non deductible costs		153		264
Utilization of tax losses brought forward for which no deferred tax		-		(197)
Tax losses used for which no deferred tax assets were recognised	0.0	-	0.0	(495)
Rates and tax base changes resulting from IRC	0.1	17		
Other	0.4	59	0.8	96
	31.6	**4 731**	**26.7**	**3 085**

Following the Law No. 55-A/2010 of 31 December, was established a Banking levy, which is not eligible as a tax cost, and whose regime was extended by Law n.º 64-B/2011, of 30 December and by Law n.º 66-B/2012, of 31 December. As at 31 December 2013, the Group recognised a cost of euro 38 thousands (31 December 2012: euro 43 thousands, which was included in other operating income and expenses – Direct and indirect taxes (see Note 10).

NOTE 27 – OTHER LIABILITIES

As at 31 December 2013 and 2012, the balance Other liabilities is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Public sector	1 342	1 155
Sundry creditors - Suppliers	477	1 283
Sundry creditors - Creditors arising out from future contracts	546	-
Sundry creditors - Captive accounts	288	163
Sundry creditors - Others	39	459
Staff costs	818	791
Other	43	3
Deferred income	149	139
Other transactions pending settlement	445	273
	4 147	**4 266**

NOTE 28 – SHARE CAPITAL

Ordinary shares

As at 31 December 2013, the Bank's share capital in the amount of euro 63 000 thousands is represented by 63 000 thousands of shares with a nominal amount of euro 1 each, fully subscribed and realised in cash.

In 2002, the Bank performed a capital increase from euro 32 422 thousands to euro 43 000 thousands through the issuance of 10 578 thousands ordinary shares with a nominal value of euro 1 each, which were subscribed and fully paid. In February 2003, the Bank performed a new capital increase through the issuance of 12 million ordinary shares with a nominal value of euro 1 each.

In 2005, the capital was increased through the issuance of 6 million ordinary shares and in 2006 was increased again through the issuance of 2 million shares by the following entities:

	% Share capital	
	31.12.2013	31.12.2012
ES Tech Ventures, SGPS, S.A.	33,97%	33,97%
Banco Espírito Santo, S.A.	32,03%	32,03%
Saxo Bank, A/S	25,00%	25,00%
Espírito Santo Financial Group	9,00%	9,00%
Banco Espírito Santo de Investimento, S.A. [a]	0,00%	0,00%
	100,00%	**100,00%**

[a] owns 100 shares of Banco BEST

NOTE 29 – FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS

Legal reserve

The legal reserve can only be used to absorb accumulated losses or to increase the amount of the share capital. Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law no. 298/92, 31 December) requires that 10% of the profit for the year be transferred to the legal reserve until it is equal to the share capital.

Fair value reserve

The fair value reserve represents the amount of the unrealized gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years.

The changes in these balances were as follows:

(in thousands of euro)

		Other reserves and retained earnings		
	Fair value reserve	Legal reserve	Other reserves and retained earnings	Total
Balance as at 31 December 2011	**(3 399)**	**1 467**	**(28 138)**	**(26 671)**
Changes in fair value	3 220	-	-	-
Transfer to reserves	-	706	6 353	7 059
Balance as at 31 December 2012	**(179)**	**2 173**	**(21 785)**	**(19 612)**
Changes in fair value	333	-	-	-
Transfer to reserves	-	846	7 610	8 456
Balance as at 31 December 2013	**154**	**3 019**	**(14 175)**	**(11 156)**

The fair value reserve is analysed as follows:

		(in thousands of euro)
	31.12.2013	31.12.2012
Amortised cost of available-for-sale financial assets	25 955	81 336
Accumulated imparment losses recognised	(167)	(167)
Amortised cost of available-for-sale financial assets, net of impairment	25 788	81 169
Fair value of available-for-sale financial assets	25 942	80 990
Net unrealised gains recognised in the fair value reserve	**154**	**(179)**

The movement in the fair value reserve, net of deferred taxes, is analysed as follows:

		(in thousands of euro)
	31.12.2013	31.12.2012
Balance at the beginning of the year	**(179)**	**(3 399)**
Changes in fair value	350	3 335
Disposals during the year	(17)	(115)
Balance at the end of the year	**154**	**(179)**

NOTE 30 – OFF-BALANCE SHEET ITEMS

Besides derivative financial instruments, as at 31 December 2013 and 2012, the off-balance sheet items be analysed as follows:

		(in thousands of euro)
	31.12.2013	31.12.2012
Contingent liabilities		
Guarantees and stand by letters of credit	380	380
Assets pledged as collateral	1 595	1 561
	1 975	**1 941**
Commitments		
Revocable commitments	68 808	59 868
Irrevocable commitments	243	493
	69 051	**60 361**
	71 026	**62 302**

Guarantees and standby letters of credit are banking operations that do not imply any out-flow by the Bank.

As at 31 December 2013, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 993 thousands (31 December 2012: euro 972 thousands);

- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 602 thousands (31 December 2012: euro 589 thousands);

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with the Bank clients which, in general, are contracted by fixed periods or with other expiring requisites and, normally, apply for the payment of a commission. Substantially, all commitments of credit concession in force require clients to maintain certain requisites which are verified at the time of the respective formalisation.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that the Bank requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

The above mentioned securities pledged as collateral are booked in the available-for-sale portfolio and they can be executed in case the Bank does not fulfil its obligations under the terms of the contracts.

Additionally, the liabilities accounted for off-balance sheet and related to banking services provided are as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Responsabilities related with banking services		
Securities and other items held for safekeeping on behalf of customers	827 440	695 835
Other responsabilties related with banking services	91 867	54 972
	919 307	**750 807**

NOTE 31 – RELATED PARTY TRANSACTIONS

As at 31 December 2013 and 2012, the balances and transactions with related parties are presented as follows:

(in thousands of euro)

	31.12.2013					31.12.2012				
	Assets	Liabilities	Guarantees	Income	Expense	Assets	Liabilities	Guarantees	Income	Expense
BES	132 217	4 819	-	680	39	124 222	7 375	-	3 740	347
BES AÇORES	-	-	-	-	-	2 399	-	-	-	-
BESI	1 281	-	-	4 635	-	1 337	-	-	63	-
ESAF	11	-	-	632	117	-	-	-	295	76
ES PLC	-	-	-	-	-	-	-	-	3 616	-
BESFINANCE	-	-	-	-	-	-	-	-	1 818	-
BES VIDA	-	11 248	-	405	84	-	10 561	1 496	120	-
ES CONTACT CENTER	-	-	-	-	-	-	-	-	-	874
LOCARENT	-	-	-	-	299	-	-	-	-	394
BES SEGUROS	-	149	-	5	-	-	108	-	5	-
UNICRE	-	1	-	-	-	-	-	-	-	-
SAXO BANK	25 150	-	-	3 884	-	33 724	200	-	5 072	-
	158 659	**16 217**	**-**	**10 241**	**539**	**161 682**	**18 244**	**1 496**	**14 729**	**1 691**

As at 31 December 2013 and 2012, the total amount of assets and liabilities of BEST with ESFG (Group BES holding) and related companies, is as follows:

(milhares de euros)

	31.12.2013					31.12.2012				
	Assets	Liabilities	Guarantees	Income	Expense	Assets	Liabilities	Guarantees	Income	Expense
BANQUE PRIVÉE ESPÍRITO SANTO	-	275	-	-	14	-	5 192	-	-	1
COMPANHIA SEGUROS TRANQUILIDADE	-	2	-	-	14	-	1	-	-	72
ES BANKERS (Dubai)	-	155	-	-	-	-	162	-	-	-
ES FINANCIAL (P)	-	-	-	298	-	60 000	-	-	1 023	-
T - VIDA	-	172	-	-	-	-	128	-	-	-
	-	**604**	**-**	**298**	**28**	**60 000**	**5 483**	**-**	**1 023**	**73**

All transactions with related parties are made on an arms length basis, under the fair value principle.

NOTE 32 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities, for the Bank, is analysed as follows:

(in thousands of euro)

	Amortised Cost	Fair Value		Book Value	Fair Value
		Quoted Market Prices	Valuation models based on observable market information		
Balance as at 31 December 2013					
Deposits with banks	49 527	-	-	49 527	49 527
Financial assets held for trading	3	-	-	3	3
Available-for-sale financial assets	549	2 651	22 742	25 942	25 942
Loans and advances to banks	120 014	-	-	120 014	120 014
Loans and advances to customers	159 006	-	609	159 615	156 938
Financial assets	**329 099**	**2 651**	**23 351**	**355 101**	**352 424**
Financial liabilities held for trading	-	-	167	167	167
Deposits from banks	13 758	-	-	13 758	13 758
Due to customers	276 960	-	-	276 960	276 960
Derivatives for risk management purposes	-	-	34	34	34
Financial liabilities	**290 718**	**-**	**201**	**290 919**	**290 919**
Balance as at 31 December 2012					
Deposits with banks	91 039	-	-	91 039	91 039
Financial assets held for trading	-	-	-	-	-
Available-for-sale financial assets	560	5 271	75 159	80 990	80 990
Loans and advances to banks	70 234	-	-	70 234	70 234
Loans and advances to customers	137 486	-	651	138 137	133 870
Derivatives for risk management purposes	-	-	-	-	-
Financial assets	**299 319**	**5 271**	**75 810**	**380 400**	**376 133**
Financial liabilities held for trading	-	-	27	27	27
Deposits from banks	18 190	-	-	18 190	18 190
Due to customers	306 306	-	-	306 306	306 306
Derivatives for risk management purposes	-	-	52	52	52
Financial liabilities	**324 496**	**-**	**79**	**324 575**	**324 575**

BEST determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.

Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgements that vary in accordance with the complexity of the financial instrument. Notwithstanding, the Bank uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The main assumptions and inputs used during the years ended 2013 and 2012 in the valuation models are presented as follows:

Interest rate curve

The short term rates presented reflect benchmark interest rates for the money market, being that for the long term the presented values represent the swap interest rate for the respective periods:

(%)

	31.12.2013			31.12.2012		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	0,1100	0,1100	0,4100	0,0700	0,1000	0,4700
1 month	0,1941	0,1600	0,4100	0,1759	0,2300	0,4600
3 months	0,2870	0,3300	0,5200	0,1870	0,4150	0,4800
6 months	0,3890	0,4100	0,7350	0,3200	0,4400	0,6200
9 months	0,3981	0,4500	0,8100	0,3178	0,5900	0,7900
1 year	0,4130	0,3050	0,6412	0,3200	0,3260	0,5411
3 years	0,7715	0,8560	1,4342	0,4700	0,4765	0,7783
5 years	1,2580	1,7490	2,1337	0,7650	0,8260	1,0169
7 years	1,6820	2,4270	2,5770	1,1250	1,2435	1,3563
10 years	2,1550	3,0280	2,9876	1,5700	1,7500	1,8560
15 years	2,5809	3,5230	3,3160	2,0184	2,2800	2,4135
20 years	2,7139	3,7200	3,4170	2,1715	2,5020	2,7230
25 years	2,7399	3,8080	3,4380	2,2203	2,6240	2,8800
30 years	2,7309	3,8520	3,4360	2,2413	2,6880	2,9535

Interest rate volatility

The values presented below, refer to the implied volatilities (at the money) used for the valuation of the interest rate options:

(%)

	31.12.2013			31.12.2012		
	EUR	USD	GBP	EUR	USD	GBP
1 year	112,77	75,90	49,18	197,18	66,60	54,10
3 years	65,30	72,76	55,78	84,70	72,90	64,90
5 years	53,30	50,62	45,99	67,50	63,22	60,80
7 years	45,20	38,21	38,55	52,90	51,03	49,60
10 years	36,80	31,55	31,80	39,70	42,33	37,20
15 years	30,68	35,58	26,58	31,43	35,80	27,80

Exchange rate and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**31.12.2013**	**31.12.2012**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,3791	1,3194	7,65	7,75	7,88	8,15	8,32
EUR/GBP	0,8337	0,8161	6,55	6,73	7,00	7,13	7,33
EUR/CHF	1,2276	1,2072	3,25	3,83	4,23	4,58	4,89
EUR/NOK	8,3630	7,3483	8,05	8,03	7,95	8,00	7,98
EUR/PLN	4,1543	4,0740	5,00	5,84	6,56	7,08	7,53
EUR/RUB	45,3246	40,3295	7,37	7,89	8,43	8,90	9,41
USD/BRL a)	2,3621	2,0491	12,95	13,38	13,60	13,80	14,00
USD/TRY b)	2,1467	1,7850	14,50	13,80	13,60	13,60	13,60

[a] Calculation based on EUR/USD and EUR/BRL exchange rates

[b] Calculation based on EUR/USD and EUR/TRY exchange rates

Concerning the exchange rates, the Bank uses in the valuation models the spot rate observed in the market at the time of the valuation.

Equity indexes

In the table below, we present the evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives:

	Quote			Historical volatility		Implied volatility
	31.12.2013	31.12.2012	% change	1 month	3 months	
DJ Euro Stoxx 50	3 109	2 636	17,9	14,90	13,72	13,44
PSI 20	6 559	5 655	16,0	12,91	13,65	-
IBEX 35	9 917	8 168	21,4	15,39	15,34	-
FTSE 100	6 749	5 898	14,4	10,11	9,83	10,69
DAX	9 552	7 612	25,5	13,23	12,04	13,56
S&P 500	1 848	1 426	29,6	8,74	10,31	11,21
BOVESPA	51 507	60 952	- 15,5	19,34	20,22	-

The methods and assumptions used in estimating the fair values of financial assets and liabilities measured at amortised cost in the balance sheet are analysed as follows:

Cash and deposits at central banks, Deposits with banks and Loans and advances to banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Loans and advances to costumers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined. The expected future cash flows of loans with similar credit risk characteristics are estimated collectively. The discount rates used by the Bank are current interest rates used in loans with similar characteristics.

Deposits from central banks and Deposits from banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Due to customers

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined. The discount rates used by the Bank are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

NOTE 33 – RISK MANAGEMENT

BEST takes advantages of the synergies inherent to its shareholding structure, while maintaining a lightweight operational structure and subcontracting Group Banco Espirito Santo a set of services and other back office functions where there are economies of scale in the use of shared services. In this sense, Banco Espirito Santo and / or Group companies are the leading provider of outsourcing services of BEST.

The role of Risk Management works within the Global Risk Department of Banco Espirito Santo and aims to ensure effective implementation of the risk management system through continuous monitoring of its adequacy and effectiveness, seeking to identify, assess, monitor and control all material risks to which the Bank is exposed, both internally and externally. In this context, BEST participates in various relevant risk committees, particularly in the Risk Committee and on the Assets and on the Liabilities Management Committee.

The Bank is exposed to the following risks arising from the use of financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk;
- Operational risk.

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk).

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the risk management during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools, as well as in procedures and decision processes.

The risk profile of the Bank is analysed on a regular basis by the risk committee, especially in what concerns the evolution of credit exposures and credit losses. The observance of the approved credit limits and the correct application of the mechanisms associated to the approval of credit lines under the current activity of the commercial structure are also subject to periodic analysis.

BEST credit risk exposure is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Deposits with banks	169 541	161 273
Available-for-sale financial assets	25 382	80 430
Loans and advances to customers	159 615	138 137
Other assets	2 379	1 363
Guarantees granted	380	380
Irrevocable commitments	243	493
	357 540	**382 076**

The analysis of the risk exposure by sector of activity, as at 31 December 2013 and 2012, can be analysed as follows:

(in thousands of euro)

	31.12.2013					
	Loans and advances to customers		Financial assets held for trading	Available-for-sale financial assets		Guarantees granted
	Gross amount	Impairment [(a)]		Gross amount	Impairment	
Agriculture	178	(1)	-	-	-	-
Mining	-	-	-	-	-	-
Food, beverage and tobacco	679	(3)	-	-	-	-
Textiles	2 810	(17)	-	-	-	-
Wood and Cork	151	(1)	-	-	-	-
Printing and publishing	193	(1)	-	-	-	-
Refinação de Petróleo	-	-	-	-	-	-
Chemicals and rubber	319	(0)	-	-	-	-
Non-metalic minerals	1 797	(9)	-	-	-	-
Metalic products	147	(1)	-	-	-	-
Construction	42	(0)	-	-	-	-
Construção e Obras Públicas	509	(3)	-	15 971	-	-
Wholesale and retail	3 055	(16)	-	-	-	-
Tourism	228	(1)	-	-	-	-
Transports and communications	237	(1)	-	-	-	-
Financial activities	349	(1)	3	3 558	-	-
Real estate activities	10 724	(622)	-	-	-	-
Services provided to companies	11 602	(29)	-	4 802	-	-
Public services	2 111	(16)	-	1 609	-	-
Other transforming industries	12 941	(100)	-	167	(167)	-
Consumers loans	114 702	(3 031)	-	-	-	-
Other	-	(2)	-	-	-	380
TOTAL	**162 773**	**(3 857)**	**3 -**	**26 108**	**(167)**	**380**

(in thousands of euro)

	31.12.2012			
	Loans and advances to customers		Available-for-sale financial assets	Guarantees granted
	Gross amount	Impairment [(a)]	Gross amount	
Agriculture	93	(3)	-	-
Mining	360	(1)	-	-
Food, beverage and tobacco	476	(3)	-	-
Textiles	1 566	(3)	-	-
Chemicals and rubber	433	(4)	-	-
Non-metalic minerals	1 345	(3)	-	-
Metalic products	117	(1)	-	-
Other transforming industries	45	-	-	-
Construction	138	(2)	-	-
Wholesale and retail	1 589	(11)	4 472	-
Tourism	144	(1)	-	-
Transports and communications	35	-	-	-
Financial activities	-	-	7 183	-
Real estate activities	8 678	(277)	6 376	-
Services provided to companies	17 736	(308)	1 045	-
Public services	14 320	(31)	1 575	-
Other transforming industries	37	-	60 506	-
Consumers loans	94 250	(3 430)	-	-
Other	-	(2)	-	380
TOTAL	**141 362**	**(4 080)**	**81 157**	**380**

[(a)] includes impairment loans in the amount of euro 3 225 thousand (see Note 18) and the provision for credit general risks in the amount of euro 855 thousand (see Note 25).

Market risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or share prices.

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. The Bank's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR stress testing has been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euro)

	31.12.2013				31.12.2012			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	57	53	89	25	29	50	85	23
Total	**57**	**53**	**89**	**25**	**29**	**50**	**85**	**23**

BEST has a VaR of euro 57 thousands (31 December 2012: euro 29 thousands) for its trading positions.

Following the recommendations of Basel II (Pillar 2) and Instructions nº19/2005, of the Bank of Portugal BEST calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance and off-balance balances which are not part of the trading portfolio, by reprising intervals.

(in thousands of euro)

	31.12.2013						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Loans and advances to banks	169 621	-	169 621	-	-	-	-
Loans and advances to customers	161 887	-	98 253	33 702	12 824	16 459	649
Securities	25 908	560	17 683	3 749	-	3 916	0
Total			**285 557**	**37 451**	**12 824**	**20 375**	**649**
Deposits from banks	13 756	-	13 756	-	-	-	-
Due to customers	275 591	-	121 154	18 928	28 021	107 488	-
Total			**134 910**	**18 928**	**28 021**	**107 488**	**-**
GAP (Assets - Liabilities)	67 509		150 647	18 523	(15 197)	(87 113)	649
Off Balance sheet	-		532	-	-	(532)	-
Structural GAP	**67 509**		**151 179**	**18 522**	**(15 197)**	**(87 645)**	**649**
Accumulated GAP			**151 179**	**169 701**	**154 505**	**66 860**	**67 509**

(in thousands of euro)

	31.12.2012						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Loans and advances to banks	160 990	280	160 710	-	-	-	-
Loans and advances to customers	140 365	-	84 223	30 020	11 680	13 806	637
Securities	80 616	560	76 261	-	-	3 795	0
Total			**321 194**	**30 020**	**11 680**	**17 600**	**637**
Deposits from banks	18 186	-	14 878	-	3 308	-	-
Due to customers	304 655	-	298 732	4 357	1 566	-	-
Total			**313 610**	**4 357**	**4 874**	**-**	**-**
GAP (Assets - Liabilities)	58 290		7 584	25 663	6 805	17 600	637
Off Balance sheet	-	-	706	-	-	-	(706)
Structural GAP	**58 290**		**8 291**	**25 663**	**6 805**	**17 600**	**(69)**
Accumulated GAP			**8 291**	**33 954**	**40 759**	**58 359**	**58 290**

The model used to monitor the sensitivity of BEST banking book to interest rate risk is based on the duration model and considers a scenario of a 100 basis points parallel shift in the interest rate curve for all maturities and non parallel scenarios of changes in the yield curve above 1 year in 50b.p..

(in thousands of euro)

	31.12.2013				31.12.2012			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At 31 December	1 394	(1 394)	723	(723)	(537)	537	(194)	194
Average for the year	1 520	(1 520)	799	(799)	(696)	696	(220)	220
Maximum for the year	1 636	(1 636)	838	(838)	(1 004)	1 004	(266)	266
Minimum for the year	1 394	(1 394)	723	(723)	(529)	529	(194)	194

The following table presents the average balances, interests and interest rates in relation to the Bank's major assets and liabilities categories, for the years ended 31 December 2013 and 2012:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Monetary assets	140 654	549	0.39%	189 686	3 684	1.94%
Loans and advances to customers	154 717	4 915	3.18%	117 013	4 712	4.03%
Securities	59 813	1 149	1.92%	96 625	3 732	3.86%
Differencial applications	-	(14)	-	-	-	-
Financial assets	**355 184**	**6 599**	**1.86%**	**403 324**	**12 128**	**3.01%**
Monetary liabilities	15 818	61	0.39%	19 284	165	0.86%
Due to customers	277 081	2 013	0.73%	337 353	5 816	1.72%
Differencial resources	62 285	-	-	46 687	-	-
Financial liabilities	**355 184**	**2 074**	**0.58%**	**403 324**	**5 981**	**1.48%**
Net interest income		**4 525**	**1.27%**		**6 147**	**1.52%**

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2013 and 2012, is analysed as it follows:

(in thousands of euro)

		31.12.2013			31.12.2012		
		Spot	Forward	Net exposure	Spot	Forward	Net exposure
USD	United Stades Dollars	(6 600)	6 868	268	(696)	1 087	391
GBP	Great Britain Pounds	57	-	57	184	-	184
DKK	Danish Krone	190	-	190	111	-	111
JPY	Japanese Yene	256	113	369	36	-	36
CHF	Swiss Franc	70	-	70	9	-	9
SEK	Swedish Krone	230	-	230	(21)	-	(21)
NOK	Norwegian Krone	643	-	643	32	-	32
CAD	Canadian Dollar	565	-	565	113	-	113
AUD	Australian Dollar	315	-	315	430	-	430
PLN	Polish Zloty	833	-	833	103	-	103
	Others	28	-	28	212	-	212
		(3 413)	**6 981**	**3 568**	**513**	**1 087**	**1 600**

Liquidity risk

Liquidity risk derives from the potential inability to fund assets while satisfying commitments on due dates and from potential difficulties in liquidating positions in portfolio without incurring in excessive losses.

The liquidity risk can be divided into two types:

- Assets liquidity (market liquidity risk) - unable to sell a particular asset due to lack of liquidity in the market, which results in extending the bid / offer spread or applying a haircut to the market value.
- Funding (funding liquidity risk) - unable to, within the desired timeframe and currency, fund assets in the market and / or refinance debt that is due. This inability can be reflected by a significant increase of the financing cost or the requirement of collateral to obtain funds. The difficulty of (re) financing can lead to asset sales, even incurring in significant losses. The risk of (re) financing should be minimized through adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk inherently in their business transformation maturity (long-term lenders and custodians short term), being crucial therefore a prudent management of liquidity risk.

The Bank prepares specific reports that allow the identification of negative mismatch and permits their dynamic coverage.

(in thousands of euro)

	31.12.2013						
	Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
ASSETS							
Cash and deposits with banks	-	-	-	-	-	-	-
Loans and advances to banks and central banks	170	110	60	-	-	-	-
Loans and advances to customers	156	1	2	3	3	4	143
Securities	25	-	16	-	4	-	5
Technical Provisions	-	-	-	-	-	-	-
Other Assets, net	-	-	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	-	-	-	-	-	-	-
Total		**111**	**78**	**3**	**7**	**4**	**148**
LIABILITIES							
Deposits from banks, central banks and other loans	14	12	2	-	-	-	-
Due to customers	276	25	5	11	1	-	234
Debt securities issued	-	-	-	-	-	-	-
Investments contracts	-	-	-	-	-	-	-
Technical Provisions	-	-	-	-	-	-	-
Other short-term liabilities	6	6	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	69	-	-	1	1	1	66
Total		**43**	**7**	**12**	**2**	**1**	**300**
GAP (Assets - Liabilities)		**68**	**71**	**(9)**	**5**	**3**	
Accumulated GAP		**68**	**139**	**130**	**135**	**138**	
Buffer > 12 months							**1**

(in thousands of euro)

	31.12.2012						
	Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
ASSETS							
Cash and deposits with banks	-	-	-	-	-	-	-
Loans and advances to banks and central banks	161	121	40	-	-	-	-
Loans and advances to customers	138	1	2	3	2	3	128
Securities	80	-	-	11	-	60	9
Technical Provisions	-	-	-	-	-	-	-
Other Assets, net	-	-	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	-	-	-	-	-	-	-
Total		**122**	**42**	**14**	**2**	**63**	**137**
LIABILITIES							
Deposits from banks, central banks and other loans	18	10	5	-	-	3	-
Due to customers	305	1	20	12	19	38	214
Debt securities issued	-	-	-	-	-	-	-
Investments contracts	-	-	-	-	-	-	-
Technical Provisions	-	-	-	-	-	-	-
Other short-term liabilities	8	8	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	60	-	-	-	1	1	57
Total		**19**	**25**	**12**	**20**	**42**	**271**
GAP (Assets - Liabilities)		**102**	**17**	**1**	**(18)**	**20**	
Accumulated GAP		**102**	**119**	**120**	**102**	**122**	
Buffer > 12 months							**4**

The one year cumulative gap went from euro 122 044 thousand in December 2012 to euro 139 198 thousand in December 2012. This positive change reflects the liquidity risk management conservative orientation with the liquidation of assets and extension of liabilities.

Additionally, and in accordance with Instruction no. 13/2009 of Bank of Portugal, the liquidity gap is defined as [(Net Assets - Volatile Liabilities) / (Assets - Net assets) * 100] on each residual cumulative maturity scale, where net assets include cash and net securities and volatile liabilities include cash, issuances, commitments, derivatives and other liabilities. This indicator allows a characterization of the wholesale risk of the institutions.

As at 31 December 2013, BEST one year liquidity gap was 78.2, which compares to 62.4 from the same period last year. This reflects a positive change, as previously mentioned with the liquidation of assets and extension of liabilities.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviours, information systems and external events. It is understood, therefore, operational risk as the sum of the following risks: operational, information systems, compliance and reputation.

To manage operational risk, it was developed and implemented a system that standardizes, systematizes and regulates the frequency of actions with the objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Capital management and solvability ratio

The main objectives of the Bank capital management are: (i) to enable the sustained growth of activity by generating sufficient capital support the increase of assets, (ii) meet the minimum requirements set by the supervisory authorities in terms of capital adequacy and (iii) ensure compliance with the Bank's strategic objectives in terms of capital adequacy.

The definition of the strategy in terms of capital adequacy is made by the Executive Committee and is integrated in the global goals of the Bank.

The Bank is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the prudential rules to be attended 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 fulfil.

The capital elements of the Bank are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

- Core Tier I: This category includes mainly the share capital, eligible reserves, the net profit for the year retained when certified. 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 I the following balance sheets amount 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 I, this category includes the preference shares and hybrid capital instruments. It can be deducted from capital half of value converted into equity, above 10%, in financial institutions and insurance companies. Following the implementation of the IRB method for credit risk, is now also adjusted 50% 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% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value and since 2009, is also deducted 50% of the expected losses of the risk positions less any existing provisions, following the application of the IRBF method for credit risk.

- Deductions (D): Essentially incorporates the prudential amortization 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 II) cannot exceed 50% of the BOF.

In December 2008, the Bank of Portugal issued the 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.

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 the 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 I ratio of no less than 9% by 31 December 2011 and 10% by 31 December 2012.
In the case of Financial Institution are not part of any financial group subject to supervision on a consolidated basis, the new standards must be observed on an individual basis. BEST, as part of a financial group subject to supervision on a consolidated basis, need not comply with these new limits.

The capital adequacy of BEST as at 30 December 2013 and 31 December 2012 is presented as follows:

(in thousands of euro)

		31-12-2013 [a]	31-12-2012 [a]
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		62 992	62 992
Eligible reserves and retained earnings		(11 148)	(19 604)
Intangible assets		(5)	(7)
Other		(1 252)	(2 848)
Basic Own Funds (TIER I)	**(A1)**	**50 587**	**40 533**
Complementary Own Funds (TIER II)		**-**	**-**
Eligible Own Funds	**(A2)**	**50 587**	**40 533**
B- Risk Weighted Assets			
Calculated according to Notice 5/2007 (Credit Risk)		186 412	222 113
Calculated according to Notice 8/2007 (Market Risk)		3 569	1 619
Calculated according to Notice 9/2007 (Operational Risk)		42 249	39 361
Risk Weighted Assets Total	**(B)**	**232 230**	**263 093**
C- Prudential Ratios			
Tier I	(A1 / B)	21,8%	15,4%
Solvency Ratio	**(A2 / B)**	**21,8%**	**15,4%**

[a] Calculated amounts according to Standard Method.

NOTE 34 – RECENTLY ISSUED PRONOUNCEMENTS

RECENTLY ISSUED PRONOUNCEMENTS ALREADY ADOPTED BY THE BANK

In the preparation of the consolidated financial statements for the year ended 31 December 2013, the Bank adopted the following standards and interpretations that are effective since 1 January 2013:

Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Presentation of Financial Statements

The IASB, issued on 16th June 2011, amendments to “IAS 1 – Presentation of Financial Statements”, effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

IFRS 7 (Amended) – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities

The IASB, issued on 16th December 2011, amendments to "IFRS 7 – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

The adoption of the amendment had no impact on the Bank's financial statements.

Improvements to IFRS (2009-2011)

The annual improvements cycle 2009-2011, issued by IASB on 17th May 2012, and adopted by the European Commission Regulation no. 301/2013 of March 27th, introduce amendments, with effective date on, or after, 1st January 2013, to the standards IFRS1, IAS1, IAS16, IAS32, IAS34 and IFRIC2 with retrospective application.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments and IFRIC 2

The improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes, avoid any interpretation that may mean any either application.

IAS 34 Interim Financial Reporting

The amendments align the disclosure requirement for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures in relation to the changes of profit and loss account and other comprehensive income.

The adoption of the amendment had no impact on the Bank's financial statements.

IFRS 13 – Fair Value Measurement

The IASB, issued on 12th May 2011, "IFRS 13 fair value Measurement", effective (with prospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

According to the provisional measures, the Bank prospectively adopted a new definition of fair value. These changes adoption had no impact on the Bank's financial statements.

RECENTLY ISSUED PRONOUNCEMENTS THAT ARE NOT YET EFFECTIVE FOR THE BANK

In the preparation of the financial statements for the year ended 31 December 2013, the following standards and interpretations have not yet been adopted by the Bank. The Bank will adopt the following standards and interpretations once they are of mandatory application.

IAS 32 (Amended) - Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

The IASB, issued on 16th December 2011, amendments to "IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

The IASB amended IAS 32 to add application guidance to address the inconsistent application of the standard in practice. The application guidance clarifies that the phrase 'currently has a legal enforceable right of set-off' means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties.

The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement.

The Bank is not expecting a significant impact from the adoption of the amendment to IAS 32.

IAS 27 (Revised) – Separate Financial Statements

The IASB, issued on 12th May 2011, amendments to "IAS 27 – Separate Financial Statements", effective (with prospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1254/2012, 11th December.

Taking in consideration that IFRS 10 addresses the principles of controls and the requirements relating to the preparation of consolidated financial statements, IAS 27 was amended to cover exclusively separate financial statements.

The amendments aimed, on one hand, to clarify the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent.

The previous version required the disclosure of the country of incorporation or residence of such entities. On the other hand, it was aligned the effective dates for all consolidated standards (IFRS10, IFRS11, IFRS12, IFRS13 and amendments to IAS 28).

The Bank expects no impact from the adoption of this amendment on its financial statements.

IFRS 10 – Consolidated Financial Statements

The IASB, issued on 12th May 2011, "IFRS 10 Consolidated Financial Statements", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, which allows a delayed on mandatory application for 1st January 2014.

IFRS 10, withdraw one part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.

The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure variability in returns may change over the time.

Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as silo).

The new standard also introduce other changes such as: i) accounting requirements for subsidiaries in consolidation financial statements are carried forward from IAS 27 to this new standards and ii) enhanced disclosures are requires, including specific disclosures for consolidated and unconsolidated structured entities.

The Bank expects no impact from the adoption of this amendment on its financial statements.

IFRS 11 – Joint Arrangements

The IASB, issued on 12th May 2011, "IFRS 11 Joint arrangements", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 11, withdraw IAS 31 and SIC 13, defines "joint control" by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a "join arrangement" to determine the nature of the joint arrangement ("joint operations" or "joint ventures") by assessing its rights and obligations.

IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of "joint venture" must be account for using the equity method (IAS 28).

The Bank expects no impact form the adoption of this amendment on its financial statements.

IAS 28 (Revised) – Investments in Associates and Joint Ventures

The IASB, issued on 12th May 2011, "IAS 28 Investments in Associates and Joint Ventures", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the entity method to investments in joint ventures and associates.

The Bank expects no impact form the adoption of this amendment on its financial statements.

IFRS 12 – Disclosures of Interest in Other Entities

The IASB, issued on 12th May 2011, "IFRS 12 Disclosures of Interests in Other Entities", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special vehicles and other off balance sheet vehicles.

The Group does not expect any major impact from the adoption of this amendment on its financial statements.

Investment Entities – Amendments to IFRS 10, IFRS12 and IAS 8 (issued by IASB on 31st October 2012)

The amendments apply to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted. This option allows investment entities to apply the Investment Entities amendments at the same time they first apply the rest of IFRS 10 on January 1st of 2013. This amendment was adopted by the European Commission Regulation no. 1374/2013 on November 20th.

The Bank does not expect any major impact from the adoption of this amendment on its financial statements.

IAS 36 (Revised) – Recoverable Amount Disclosures for Non-Financial Assets

The IASB issued on 29th May 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1st January 2014. These amendments were endorsed by EU Commission Regulation 1374/2013, 19th December.

The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets.

IAS 39 (Revised) – Novation of Derivatives and Continuation of Hedge Accounting

The IASB issued on 27th June 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1st January 2014. These amendments were endorsed by EU Commission Regulation 1375/2013, 19th December.

The objective of the amendments is to provide relief in situations where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Such a relief means that hedge accounting can continue irrespective of the novation which, without the amendment, would not be permitted.

IFRIC 21 – Levies

The IASB issued on 20th May 2013, this interpretation, effective (with retrospective application) for annual periods beginning on or after 1st January 2014.

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have any effect on the Bank's financial statements.

Improvements to IFRS (2010-2012)

The annual improvements cycle 2010-2012, issued by IASB on 12th December 2013, introduce amendments, with effective date on, or after, 1st July 2014, to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS16, IAS24 and IAS38.

IFRS 2 – definition of vesting condition

The amendment clarify the definition of 'vesting conditions' in Appendix A of IFRS 2 Share-based Payment by separate the definition of performance condition and service condition from the definition of vesting condition to make the description of each condition clear.

IFRS 3 – Accounting for contingent consideration in a business combination

The objective of this amendment is to clarify certain aspects of accounting for contingent consideration in a business combination, namely: classification of contingent consideration in a business combination and subsequent measurement, taking into account if such contingent consideration is a financial instrument or a non-financial asset or liability.

IFRS 8 – Aggregation of operation segments and reconciliation of the total of the reportable segments' assets to entity's assets

The amendment clarify the criteria for aggregation of operating segments and requires entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. To achieve consistency, reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker.

IFRS 13 – Short-term receivables and payables

IASB amends the basis of conclusion in order to clarify that, by deleting IAS 39AG79, in applying IFRS 3, IASB did not intend to change the measurement requirements for short-term receivables and payables with no interest, that should be discount if such discount is material, noting that IAS 8.8 already permits entities not apply accounting polices set out in accordance with IFRSs when the effect of applying them is immaterial.

IAS 16 & IAS 38 – Revaluation method – proportionate restatement accumulated depreciation or amortization

In order to clarify the calculation of the accumulated depreciation or amortization at the date of the revaluation, IASB amended paragraph 35 of IAS 16 and paragraph 80 of IAS 38 to clarify that: the determination of the accumulated depreciation (or amortization) does not depend on the selection of the valuation technique; and the accumulated depreciation (or amortization) is calculated as the difference between the gross and the net carrying amounts.

IAS 24 – Related Party Transactions – Key management personal services

In order to address the concerns about the identification of key management personal (KMP) costs, when KMP services of the reporting entity are provided by entities (management entity e.g. in mutual funds), IASB clarifies that, the disclosure of the amounts incurred by the entity for the provision of KMP services that are provided by a separate management entity shall be disclosed but it is not necessary to present the information required in paragraph 17.

Improvements to IFRS (2011-2013)

The annual improvements cycle 2011-2013, issued by IASB on 12th December 2013, introduce amendments, with effective date on, or after, 1st July 2014, to the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40.

IFRS 1 – meaning of "effective IFRS"

IASB clarifies that if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements.

IFRS 3 – Scope exceptions for joint ventures

The amendment excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3. The scope exception only applies to the financial statements of the joint venture or the joint operation itself.

IFRS 13 – Scope of paragraph 52 – portfolio exception

Paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. This is referred to as the portfolio exception. The objective of this amendment was to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

IAS 40 – Interrelationship with IFRS 3 when classify property as investment property or owner-occupied property

The objective of this amendment was to clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgement is based on the guidance in IFRS 3.

IFRS 9 – Financial Instruments (issued in 2009 and revised in 2010)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project of make limits amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profits or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.
Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instruments is assessed in its entirety as to whether it should be amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities form IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised.

The Bank has started the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operation, this standard is expected to have a pervasive impact on the Bank's financial statements.