



Espirito Santo Financial Group S.A.

(incorporated with limited liability in the Grand Duchy of Luxembourg – société anonyme – registered with the Register of Commerce and Companies under number B-22.232)

and

ESFIL - Espirito Santo Financière S.A.

(incorporated with limited liability in the Grand Duchy of Luxembourg – société anonyme – registered with the Register of Commerce and Companies under number B-46.338)

unconditionally and irrevocably guaranteed by

Espirito Santo Financial Group S.A.

(incorporated with limited liability in the Grand Duchy of Luxembourg – société anonyme – registered with the Register of Commerce and Companies under number B-22.232)

€2,000,000,000

Euro Medium Term Note Programme

Under this €2,000,000,000 Euro Medium Term Note Programme (the **EMTN Programme**) each of Espirito Santo Financial Group S.A. and ESFIL - Espirito Santo Financière S.A. (each an **Issuer**, and together the **Issuers**) may from time to time, and subject to applicable laws and regulations, issue debt securities (the **Notes**) denominated in any currency agreed by the Issuer of such Notes (the **relevant Issuer**) and the relevant Dealer (as defined below). The payment of all amounts payable by ESFIL - Espirito Santo Financière S.A. (**ESFIL**) in respect of Notes issued by ESFIL will be unconditionally and irrevocably guaranteed by Espirito Santo Financial Group S.A. (**ESFG** or the **Guarantor**).

The Final Terms (as defined below) for each Tranche (as defined below) of Notes will state whether the Notes of such Tranche are to be (i) senior Notes, which in the case of ESFIL will be unconditionally and irrevocably guaranteed by ESFG on an unsubordinated basis (**Senior Notes**), (ii) dated subordinated Notes, which may only be issued by ESFG (**Dated Subordinated Notes**), or undated deeply subordinated Notes, which may only be issued by ESFG (**Undated Deeply Subordinated Notes**).

An investment in Notes issued under the EMTN Programme involves certain risks. Prospective investors should have regard to the factors described under the heading “Risk Factors” on page 25.

Any person (an **Investor**) intending to acquire or acquiring any Notes issued by ESFG from any person (an **Offeror**) should be aware that, in the context of an offer to the public as defined in the Prospectus Directive (as defined below), ESFG may be responsible to the Investor for this Prospectus only if ESFG has authorised that Offeror to make the offer to the Investor. Each Investor should therefore enquire whether the Offeror is so authorised by ESFG. If the Offeror is not authorised by ESFG, the Investor should check with the Offeror whether anyone is responsible for this Prospectus for the purposes of Article 6 of the Prospectus Directive as implemented by the national legislation of each EEA Member State in the context of the offer to the public, and, if so, who that person is. If the Investor is in any doubt whether it can rely on this Prospectus and/or who is responsible for its contents it should take legal advice.

Arranger

Espirito Santo Investment Bank

Dealers

**Banco Espirito Santo S.A.
Credit Suisse
HSBC
Nomura**

**Barclays
Espirito Santo Investment Bank
J.P. Morgan
UBS Investment Bank**

An Investor intending to acquire or acquiring any Notes issued by ESFG from an Offeror will do so, and offers and sales of such Notes to an Investor by an Offeror will be made, in accordance with any terms and other arrangements in place between such Offeror and such Investor including as to price, allocations and settlement arrangements with Investors (other than Dealers sometimes identified as Managers in the applicable Final Terms (as defined below)) in connection with the offer or sale of such Notes. ESFG will not be a party to such terms and other arrangements with Investors (other than Dealers or Managers) and, accordingly, this Prospectus and any Final Terms will not contain such terms and other arrangements and any Investor must obtain such information from the Offeror.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Notes being issued by ESFG are the persons named in the applicable Final Terms as Dealers, Managers or Placers (as defined in the applicable Final Terms).

The maximum aggregate amount of all Notes from time to time outstanding under the EMTN Programme will not exceed €2,000,000,000 (or its equivalent in other currencies calculated as described herein) or such greater amount as may be agreed from time to time in accordance with the terms of the Programme Agreement. The Notes may be issued on a continuing basis to one or more of the Dealers specified on page 18 and any additional Dealer appointed under the EMTN Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a **Dealer**, and together the **Dealers**).

Application has been made to the Commission de Surveillance du Secteur Financier (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (the **Luxembourg Act**) to approve this document as a base prospectus. The CSSF assumes no responsibility as to the economic and financial soundness of the transactions contemplated by this Prospectus or the quality or solvency of the Issuers in accordance with Article 7(7) of the Luxembourg Act. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the EMTN Programme to be listed on the Official List of the Luxembourg Stock Exchange and for such Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (Markets in Financial Instruments Directive) and the Prospectus Directive (as defined below).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Luxembourg Stock Exchange's regulated market, will be delivered to the CSSF and the Luxembourg Stock Exchange, in each case, on or before the date of issue of the Notes of such Tranche. The EMTN Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange or market as may be agreed between the relevant Issuer and the relevant Dealer in relation to each issue of Notes. Each Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

This Prospectus together with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*") constitutes a base prospectus for the purposes of Article 5.4 of the Prospectus Directive.

Each of ESFG and ESFIL accept responsibility for the information contained in this Prospectus. To the best of the knowledge of ESFG and ESFIL (each having taken all

reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No representation, warranty or undertaking, express or implied, is made and to the fullest extent permitted by law, no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by ESFG or ESFIL. No Dealer accepts any liability in relation to the information contained in this Prospectus or any other information provided by ESFG or ESFIL in connection with the EMTN Programme or the issue of Notes.

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

Neither this Prospectus nor any other information supplied in connection with the EMTN Programme or any Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by ESFG, ESFIL or any Dealer that any recipient of this Prospectus or any other information supplied in connection with the EMTN Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer and the Guarantor (if applicable). Neither this Prospectus nor any other information supplied in connection with the EMTN Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the relevant Issuer, the Guarantor (if applicable) or any Dealer to any person to subscribe for or to purchase any Notes.

The delivery of this Prospectus does not at any time imply that the information contained herein concerning ESFG, ESFIL or ESFG and its consolidated subsidiaries (the **ESFG Group**) is correct at any time subsequent to the date hereof or that any other information supplied in connection with the EMTN Programme or any Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of ESFG, ESFIL or the ESFG Group during the life of the EMTN Programme or to advise any investor in the Notes of any information coming to their attention.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the European Economic Area (including the United Kingdom) (see “*Subscription and Sale*”).

None of ESFG, ESFIL or the Dealers represent that this Prospectus or any of the offering material relating to the EMTN Programme or any Notes issued thereunder may be lawfully distributed, or that any of the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Final Terms, no action has been taken by ESFG, ESFIL or the Dealers (save for

the approval of this Prospectus by the CSSF) which is intended to permit a public offering of any Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and each of the Dealers has represented and agreed, and each further Dealer appointed under the EMTN Programme will be required to represent and agree, that all offers and sales by them will be made on the same terms.

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

Unless a specific source is identified, all information regarding market and other operating and statistical data provided in this document is based on the ESFG Group’s own estimates. In making estimates, the ESFG Group relies on data produced internally and, where appropriate, on external sources, including information made public by other market participants or associations, such as the Association of Mutual Funds, Pension Plans and Asset Management Companies and the Portuguese Association of Insurance Companies. Where a specific external source is identified, this information has been accurately reproduced and as far as ESFG is aware and is able to ascertain from such external sources, no facts have been omitted which would render any such information or data presented in this document inaccurate or misleading. However, although publications prepared by other market participants or associations generally state that the information they contain has been obtained from sources believed to be reliable, the accuracy and completeness of such information is not guaranteed and neither ESFG nor any other member of the ESFG Group has independently verified such information.

As used herein, “**Series**” means each original issue of Notes together with any further issues expressed to form a single series with the original issue and the terms of which (save for the Issue Date, the amount and the date of the first payment of interest thereon and/or the Issue Price (as indicated in the applicable Final Terms)) are identical (including the Maturity Date, Interest Basis, Redemption/Payment Basis and Interest Payment Dates (if any) (as indicated in the applicable Final Terms) and whether or not the Notes are admitted to trading) and the expression “**Notes of the relevant Series**” and related expressions shall be construed accordingly. As used herein, “**Tranche**” means all Notes of the same Series with the same Issue Date and Interest Commencement Date (if applicable) as indicated in the applicable Final Terms.

Certain terms used in this document, including certain capitalised terms, are defined and explained in “*Definitions*”.

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer, the Guarantor and their affiliates in the ordinary course of business.

The minimum denomination of each Note issued by ESFG which is admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive (as defined below) will be €1,000

(or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the issue date of such Notes).

The minimum denomination of each Note issued by ESFIL which is admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive (as defined below) will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the issue date of such Notes).

This Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes issued by ESFG in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes issued by ESFG which are the subject of an offering contemplated in this Prospectus as completed by Final Terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for either ESFG or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by Final Terms or is a drawdown prospectus which specifies that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State, such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or applicable Final Terms or drawdown prospectus, as applicable, and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither ESFG nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes issued by ESFG in circumstances in which an obligation arises for ESFG or any Dealer to publish or supplement a prospectus for such offer. The expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

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

All references in this document to “EUR”, “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

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

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SUMMARY OF THE EMTN PROGRAMME

This summary must be read as an introduction to this Prospectus and any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. No civil liability will attach to the Issuers and the Guarantor in any Member State of the European Economic Area solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the claimant may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Information about ESFG and ESFIL

ESFG Group's business, principal activities and markets

Espírito Santo Financial Group S.A. (**ESFG**) is a public limited company (*société anonyme*) organised under the laws of Luxembourg. ESFG is a Luxembourg based financial holding company with banking, insurance and healthcare interests. ESFG's primary investments are located in Portugal as well as in countries with cultural and economic ties with Portugal, most of them with high growth potential (including, Angola, Brazil and Mozambique). In addition, it has other investments in Spain, the United Kingdom, France, Switzerland, Poland, India, Libya, Panama, the United States, Dubai and Venezuela, among others.

ESFIL - Espírito Santo Financière S.A. (**ESFIL**) is a public limited company (*société anonyme*) organised under the laws of Luxembourg and is a wholly owned subsidiary of ESFG. The principal activity of ESFIL is the acquisition of interests in other Luxembourg or foreign companies and investment in industrial or trading companies. It also participates in the organisation and development of industrial or trading companies by granting assistance to such companies in the form of loans, guarantees or in any other way.

At 31 December 2011, the ESFG Group had consolidated assets of EUR 84.0 billion and consolidated equity (attributable to equity holders of ESFG) of EUR 1.3 billion. Consolidated net income for the year ended 31 December 2011 (attributable to equity holders of ESFG) was EUR 121.4 million. The total capitalisation and indebtedness of ESFG as at 31 December 2011 on a consolidated basis was approximately EUR 22.1 billion.

The ESFG Group's assets in Portugal accounted for 69.5 per cent. of its total consolidated assets as at 31 December 2011. For the year ended 31 December 2011, the ESFG Group derived 2.5 per cent. of its consolidated net profit, before non-controlling interest, from its operations in Portugal, after intra-group eliminations.

The ESFG Group's principal operations outside of Portugal are focused on the strategic triangle comprised of Iberia, South America and Africa, which are considered to be high growth countries with cultural or trade links to Portugal. The ESFG Group's international operations contributed net profit before non-controlling interest of EUR 254.0 million for the year ended 31 December 2011, compared with a Portuguese domestic contribution to net profit before non-controlling interest of EUR 6.5 million for the year ended 31 December 2011.

Banking

The ESFG Group conducts a broad range of banking activities, including commercial banking, investment banking, asset management and private banking, stockbrokerage and others, primarily through Banco Espírito Santo, S.A. (BES) and its consolidated subsidiaries (BES Group). The BES Group is the second largest private financial institution in Portugal by total consolidated assets and the largest Portuguese financial institution by market capitalisation (EUR 2 billion as of 31 December 2011). Headquartered in Portugal, with an average market share in the Portuguese banking market of 19.3 per cent. and an average market share in the Portuguese corporate banking market of 24.8 per cent. in 2011, the BES Group is one of the leading banking groups in Portugal offering individual and corporate customers a wide range of banking and financial services.

The BES Group accounted for 92.6 per cent. of the ESFG Group's total assets as at 31 December 2011, 92.7 per cent. of the ESFG Group's commercial banking income for the 12 months ended 31 December 2011, 70.2 per cent. of the ESFG Group's operating income for the 12 months ended 31 December 2011, and 6.6 per cent. of the ESFG Group's net profit attributable to equity holders of ESFG for the 12 months ended 31 December 2011, in each case after intra-group eliminations.

Commercial Banking: In addition to the BES Group, the ESFG Group conducts commercial banking activities through its French banking operations, Banque Espírito Santo et de la Vénétie, S.A. (BESV) and also through ES Bank (Panama) S.A. (ESBP), among others.

Investment Banking: The ESFG Group's investment banking business is managed primarily through Banco Espírito Santo de Investimento, S.A. (BESI), a wholly owned subsidiary of BES, operating in Portugal, Spain, Brazil, the United Kingdom, the United States, Poland and India.

Asset Management and Private Banking, Stockbrokerage: The ESFG Group's asset management and private banking activities are operated through ESAF – Espírito Santo Activos Financeiros, SGPS, S.A. (ESAF), Banque Privée Espírito Santo S.A. (BPES) and ES Bankers (Dubai) Limited (ESBD), based in Portugal and Spain, Switzerland and Dubai, respectively. The ESFG Group conducts its stockbrokerage activities through BESI in Portugal and through branches of BESI in Spain and Poland, through BESI's Brazilian subsidiary BES Investimento do Brasil, S.A., in which Banco Bradesco, S.A. holds a 20 per cent. stake. The ESFG Group conducts its private banking activities in the United States through Espírito Santo Bank (of Miami). In the United Kingdom, BESI acquired in November 2010 a 50.1 per cent. stake in Execution Holdings Limited (Execution Noble), a London based financial brokerage group, through which stockbrokerage activities are carried out.

Insurance

The ESFG Group's insurance activities comprise both life insurance and non-life insurance. The ESFG Group conducts its Portuguese non-life insurance business in the non-*bancassurance* segment through Companhia de Seguros Tranquilidade, S.A. (Tranquilidade) and Seguros Logo, S.A. (LOGO), and its Portuguese life insurance business in the non-*bancassurance* segment through T-Vida, Companhia de Seguros, S.A. (T-Vida). The ESFG Group conducts its Portuguese life insurance business in the *bancassurance* segment through BES Vida, Companhia de Seguros, S.A. (BES Vida) and its Portuguese non-life insurance business in the *bancassurance* segment through BES, Companhia de Seguros, S.A. (BES Seguros). Crédit Agricole owns a 50 per cent. interest in BES Seguros and controls its activities. On 11 May 2012, BES completed its agreement, entered into with Crédit Agricole

on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated.

The ESFG Group conducts its Spanish life insurance business in the *bancassurance* segment through Pastor Vida S.A. (Pastor Vida), a company in which Tranquilidade owns a 50 per cent. interest, with the remaining 50 per cent. interest being owned by Banco Pastor, S.A. ESFG has management control of Pastor Vida and it is therefore a consolidated subsidiary of ESFG. Banco Popular Español, S.A. (Banco Popular) has acquired 100 per cent. of Banco Pastor, S.A. (Banco Pastor) and Banco Popular has its own *bancassurance* operations. As a result of this change of control, the ESFG Group has the right to require Banco Pastor to purchase its interest in Pastor Vida. The timing of the purchase, and the amount to be paid, has yet to be determined by the parties.

As at 31 December 2011, the ESFG Group's wholly owned insurance operations which include Tranquilidade, T-Vida and LOGO, taken together with the ESFG Group's 50 per cent. interest in BES Vida and BES Seguros were, together, the fourth largest insurance group in Portugal in terms of gross written premiums (representing a 6.7 per cent. market share – 4.6 per cent. in life insurance and 10.5 per cent. in non-life insurance), according to the Associação Portuguesa de Seguradores (APS) and the third largest private insurance group in terms of gross written premiums according to the APS. At the ESFG Group consolidated level, after intra-group eliminations, these insurance companies accounted for 2.2 per cent. of ESFG's total assets as at 31 December 2011 and (18.7) per cent. of the ESFG Group's profit before taxes and non-controlling interest for the 12 months ended 31 December 2011.

Healthcare services

The ESFG Group conducts its activities in healthcare services through Espírito Santo Saúde, SGPS, S.A. (ESS), a holding company which operates principally in the following areas of healthcare management in Portugal: hospitals, outpatient clinics and senior care residences.

ESS is a leading private healthcare provider in Portugal which owns a total of 17 hospitals and operates a total of 18 hospitals (it operates the new Hospital Beatriz Ângelo in Loures, which opened in January 2012, through the Public-Private Partnerships (PPP) programme) as well as outpatient clinics and senior care residences. Hospital da Luz, the largest private hospital in Portugal and a key investment at ESS, saw revenue growth up by 8.1 per cent. in 2011. Between 2000 and 2011 ESS has reported a yearly compounded annual growth rate of approximately 40 per cent. measured by operating revenues.

ESFG Capital positioning

ESFG is supervised on a consolidated basis by the Bank of Portugal as the majority of the ESFG Group's activities are conducted in Portugal.

At 31 December 2011, the ESFG Group's Core Tier I ratio and Tier I ratio were 8.3 per cent. and 8.6 per cent., respectively, calculated under the Basel II, IRB Foundation Method.

At the BES Group level, Core Tier I ratio and Tier I ratio were 9.2 per cent. and 9.4 per cent., respectively, under the Basel II, IRB Foundation Method at 31 December 2011.

In May 2011, following the Portuguese government's request for assistance and the signing of the Memorandum of Economic and Financial Policies (MEFP) between the Portuguese government, the European Commission (EC), the European Central Bank (ECB) and the

International Monetary Fund (IMF), the Bank of Portugal published Notice 3/2011 under which new minimum levels of Core Tier I capital for Portuguese regulated banking institutions were set at 9 per cent. by 31 December 2011 and 10 per cent. by 31 December 2012.

The Bank of Portugal and the ECB, in consultation with the EC and the IMF, established clear periodic target leverage ratios that required Portuguese banks to develop institution specific medium-term funding plans by 30 June 2011 to achieve a stable market-based funding position. The ECB, the EC and the IMF, collectively known as the “Troika”, will make, from time to time, periodic reviews of banking activities in Portugal. The increase in supervision resulting from the IMF/Eurozone Stabilisation Programme (the **Stabilisation Programme**) may result in ESFG facing the need to increase its capital base further or to restrict its policy regarding earnings distribution. Additionally, the ESFG Group may also be subject to additional constraints on the way it manages assets and liabilities and may be affected by the triggering of public recapitalisation mechanisms (which are subject to conditions) specifically provided for by the Stabilisation Programme.

On 15 July 2011, the Bank of Portugal announced the results of the EU-wide stress test for 2011 conducted by the European Banking Authority (EBA), the EC and the European Systemic Risk Board. The results calculated for the ESFG Group, based on the assumptions and methodology defined by the EBA, confirmed a Core Tier I ratio of 5.8 per cent. in 2012 under the adverse scenario, after taking account of divestments and other management action taken by 30 April 2011, compared to 6.4 per cent. as of the end of 2010.

On 27 October 2011, ESFG announced that it had received a statement from the Bank of Portugal that, among other things:

- in light of the substantial increase in systemic risk triggered by the sovereign debt crisis in the Euro area and after careful evaluation, at market value, of sovereign debt as at 30 September 2011, it was decided that the banking groups subject to the EBA stress tests should strengthen their levels of capital in order to reach, by 30 June 2012, a Core Tier I capital ratio of 9 per cent.; and
- the total amount of capital identified as needed for the ESFG Group was EUR 1.487 billion, with EUR 44 million resulting from the evaluation at market prices of its exposure to sovereign debt.

On 8 December 2011, ESFG announced that it had received a statement from the EBA that stated, among other things:

- in light of the decision that the banking groups subject to the EBA stress tests should strengthen their levels of capital and following the completion of the capital exercise conducted by the EBA in close cooperation with the Bank of Portugal, it was determined that ESFG had a capital shortfall of EUR 1.597 billion (with EUR 121 million resulting from the evaluation at market prices of exposure to sovereign debt) which must be addressed by the end of June 2012; and
- ESFG would ensure that it would adhere to the Core Tier I capital ratio of 9 per cent. by the end of June 2012, and it would submit a plan to the Bank of Portugal by 20 January 2012, setting out the proposed action to be taken by ESFG to meet that Core Tier I capital ratio of 9 per cent. target by the end of June 2012 and to bring the capital shortfall to zero.

At 31 December 2011, the ESFG Group's Core Tier I ratio, calculated under the Basel II, IRB Foundation Method, was 8.3 per cent.

On 10 January 2012, the Bank of Portugal, taking into account the results of the EBA stress test, published Notice 5/2012 under which it confirmed the new minimum level of the Core Tier I capital ratio, set at 9 per cent., to be achieved by 30 June 2012.

On 1 March 2012, ESFG announced the results of the Special Inspections Programme (SIP) as follows:

- The Bank of Portugal announced on 1 March 2012 the completion of the third and final stage, and global results, of the SIP, the programme undertaken as part of the measures and actions agreed by the Portuguese authorities for its financial system within the framework of the Programme of Economic and Financial Assistance agreed with the IMF/EU/ECB in May 2011.
- The SIP covered eight of the largest Portuguese banking groups, including ESFG. The first two stages and respective results were published on 16 December 2011.
- The objective of the third stage of the SIP was to evaluate the adequacy of the parameters and methodologies used by the banking groups in their respective financial projections that supported future solvency forecasts, which were undertaken within the framework of the "Stress Tests" exercises.
- The evaluation undertaken confirmed that ESFG's parameters and methodologies were "clearly adequate", the highest classification attributable under stage 3 of the SIP.
- With regard to measures that warrant further improvement, ESFG will establish and present its implementation plan to the Bank of Portugal in the short term, in the context of the ESFG Group's continued improvement process.

On 11 May 2012, BES completed its capital increase and issued 2,556,688,387 new ordinary shares, raising gross proceeds of EUR 1,010 million. It is estimated that as a result of the capital increase BES has raised its Core Tier I capital ratio from 9.21 per cent. to 10.75 per cent. (an increase of 154 basis points), based on risk weighted assets as at 31 December 2011 (and all other things remaining constant), above both the minimum Core Tier I capital ratio of 9 per cent. required by the EBA by 30 June 2012 and the minimum Core Tier I capital ratio of 10 per cent. required by the Bank of Portugal by 31 December 2012.

On 11 May 2012, BES also completed its agreement, entered into with Crédit Agricole on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated. The BES Group expects the acquisition to result in a Core Tier I capital reduction of approximately EUR 140 million equivalent to a Core Tier I reduction of 22 basis points, based on the risk-weighted assets as at 31 December 2011.

On 26 April 2012, ESFG issued 102,040,816 new Shares (the **New Shares**). ESFG has applied the proceeds from the issue of the New Shares to strengthen its Core Tier I capital on a consolidated basis and, in particular, by subscribing for ESFG's full entitlement in BES' capital increase which completed on 11 May 2012, in order for ESFG to meet the required

EBA Core Tier I capital ratio of 9 per cent. by 30 June 2012 and towards meeting the Bank of Portugal Core Tier I capital ratio of 10 per cent. by 31 December 2012.

On 26 April 2012, ESFG also announced that, based on risk weighted assets as at 31 December 2011, the issue of the New Shares results in ESFG's core capital position (CET1) increasing to 9.5 per cent. (including the sovereign capital buffer required by the EBA) and to 10.0 per cent. calculated under the Basel II, IRB Foundation Method.

Directors, senior management and employees

ESFG is administered by the Board of Directors (the **Board**), which must consist of at least three members, who may also be shareholders of ESFG. Their term of office is six years. At the date of this document, the Board consists of 24 Directors. The Senior Management of ESFG is comprised of five Senior Vice Presidents. One Senior Vice President is also the Company Secretary of ESFG, another is the Chief Financial Officer of ESFG. Mr Ricardo Espírito Santo Salgado is the Chairman of the Board and Mr Gherardo Laffineur Petracchini is the Chief Executive Officer of ESFG.

Luxembourg law does not have any independence requirement for the members of the board of directors of a Luxembourg company. However, ESFG broadly follows the guidance of the criteria of independence of the Luxembourg Stock Exchange in its Principles of Corporate Governance. ESFG considers that of its 24 Directors, six have no material relationship with ESFG and/or other relationships that preclude independence and, as such, would be considered to be independent.

As at 31 December 2011, ESFG had four employees, all at ESFG's representative office in London. As at the date of this document, the Chief Executive Officer of ESFG and two members of ESFG's Senior Management are employed by ESFG. As at 31 December 2011, the ESFG Group had 14,889 employees distributed over four continents; of these 12,204 (82 per cent.) worked in Portugal and 2,685 (18 per cent.) were based outside Portugal.

Strategy

The ESFG Group

ESFG is a financial holding company which, through its subsidiaries, provides a wide range of banking, insurance and healthcare services in Portugal and internationally. The ESFG Group's principal operations outside of Portugal (located in Iberia, South America and Africa) primarily serve Portuguese businesses and individuals abroad.

The ESFG Group's primary strategy is to further develop its businesses through the cross-selling of the full range of banking, insurance and healthcare services offered by its subsidiaries, while taking advantage of cost reduction opportunities afforded by a more efficient integration of the ESFG Group's businesses. The ESFG Group follows a strategy of organic growth along with selective localised acquisitions in Portugal and other countries, in particular, where there are cultural affinities with Portugal which includes high-growth emerging economies, characterised as natural resource-rich, with high liquidity pools and ambitious infrastructure development programmes.

The ESFG Group's strategy encourages greater revenue growth from its international operations outside of Portugal, supporting Portuguese companies and individuals in their efforts to generate business abroad. The ESFG Group's principal focus is in Iberia, South America and Africa (collectively referred to as the "strategic triangle") as well as operations in other developed and emerging markets. The ESFG Group will continue to develop

strategies to ensure that it will continue to play a major role in banking, insurance and healthcare in the future in the markets in which it operates.

Banking

ESFG's principal aims for its banking subsidiaries are to increase their profitability, market share and productivity, while maintaining a solid position in terms of solvency and liquidity ratios, adequate loan quality and a conservative provisioning policy in respect of overdue loans. It also seeks to improve asset quality while maintaining a strict policy with respect to its loan to deposit ratio.

At the beginning of the second half of 2010, the Board of Directors of BES decided to implement initiatives to increase long term profitability, deleverage the balance sheet and strictly monitor asset quality with continued reinforcement of provision coverage with a focus on strengthening its capital position. As at 31 December 2011, BES Group reported a total reduction of EUR 2.8 billion of total assets and an increase in customer deposits of 11 per cent. year-on-year to EUR 34.2 billion as at 31 December 2011 (an increase of EUR 3.4 billion). As a result of the increase in customer deposits and the reduction of loans to customers, the loan to deposit ratio decreased from 165 per cent. as at 31 December 2010 to 141 per cent. as at 31 December 2011.

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

Through ESFG's banking subsidiaries, it also aims to improve efficiency by rationalising its structure and creating shared services, while recognising the need for technical innovation leading to greater efficiency, improved service quality and the ability to respond to new challenges.

The ESFG Group's banking businesses are located in, but are not limited to, the principal banking centres in Continental Europe (including Iberia), Brazil, Africa (including Angola, Mozambique and Libya), the United Kingdom, the United States, Panama and Dubai. The ESFG Group will continue to develop strategies that will ensure that it will continue to play a major role in banking which include the continued development of banking business outside of its traditional markets.

Insurance

ESFG's principal aim for its insurance subsidiaries is to capitalise on the ESFG Group's strengths in offering integrated financial services to its customers, satisfying their life and non-life insurance requirements. The ESFG Group's strategy through its wholly owned insurance subsidiaries ensures that their agents are able to offer insurance and banking products (through the *assurfinance* initiative between BES and Tranquilidade) to their customer base. This strategy seeks to reinforce both agent and customer loyalty through the provision of multiple products that agents of ESFG's wholly owned subsidiaries can offer customers.

The ESFG Group's wholly owned insurance operations take advantage of organic and non-organic growth opportunities in the life and non-life sectors. Growth opportunities may be provided by increasing life and non-life business in Portugal, Spain and in other regions

where ESFG's insurance subsidiaries operate. Growth opportunities will also derive from the cross-selling activities afforded by the ESFG Group's *assurfinance* initiatives and, more broadly, by leveraging the *bancassurance* platforms in both life (BES Vida) as well as non-life (BES Seguros).

Healthcare services

ESFG's strategy for its healthcare services business (through Espírito Santo Saúde (**ESS**)) focuses on the continued growth of its hospitals, outpatient clinics and senior care residences. ESS aims to develop synergies between its various healthcare units and to expand its activities in Portugal, which include the expansion of its key hospital, Hospital da Luz in Lisbon. ESS will continue to work with the Public-Private Partnership (PPP) programme framework at the Hospital Beatriz Ângelo (which opened in January 2012). The healthcare services strategy also includes the development of cross-selling opportunities with ESS' own customers and those of ESFG's insurance and banking operations.

Major shareholders and related party transactions

As of 21 May 2012, Espírito Santo International S.A. (**Espírito Santo International**) and its wholly owned subsidiary, Espírito Santo Irmãos SGPS, S.A. (**Espírito Santo Irmãos**) together held directly or indirectly 88,942,574 ordinary shares of no par value in the share capital of ESFG (the **Shares**), representing 42.95 per cent. of the issued share capital of ESFG.

Six of the directors of Espírito Santo International are also directors of ESFG. Espírito Santo International, as at 31 December 2011, was 53.07 per cent. owned, directly or indirectly, by members of the Espírito Santo family and certain Portuguese nationals close to the family (including certain of the directors of Espírito Santo International and ESFG). Private individuals not related to the family hold the balance of the shares in Espírito Santo International.

The ESFG Group has business relationships with a number of entities in which it owns significant equity interests, which own significant equity stakes in the ESFG Group, or with which it is otherwise associated. It also has business relationships with a number of entities in which members of the Board hold management positions. The ESFG Group conducts all of its business with these entities on terms equivalent to those that would exist if it did not have equity interests in them or they did not have equity stakes in the ESFG Group or management members in common and were not otherwise associated with them.

Auditors

The auditors of ESFG for the financial year ended 31 December 2011 were KPMG Luxembourg S.à.r.l. and for the financial year ended 31 December 2010 were KPMG Audit S.à.r.l., chartered accountants (*Réviseurs d'Entreprises*), whose registered address is at 9 Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg.

Risk factors

The ESFG Group's business, its revenues, operating income, net income, net assets and liquidity, capital resources and the price at which the Notes trade, could be materially affected by factors such as:

- deterioration of the financial markets and economic environment;

- the Portuguese economy;
- economic, political or governmental conditions in other countries where it operates;
- exposure to sovereign debt;
- further downgrades of Portugal's sovereign ratings;
- further reductions in the ESFG Group's credit ratings;
- increased capital requirements may require ESFG to raise additional capital;
- changes in the regulatory environment or additional regulatory restrictions/requirements;
- key minority interests in ESFG Group companies;
- compliance with anti-money laundering and anti-terrorism financing rules;
- market risk;
- credit risk;
- operational risk;
- technological risk;
- liquidity risk, including dependence on ECB funding at the ESFG and BES level;
- funding risk;
- competition;
- insurance risk;
- the structure of the ESFG Group and ESFG's dependence on dividends from its subsidiaries;
- future capital raising measures by BES may result in a dilution of ESFG's rights;
- majority shareholders; and
- failure of certain ESFG Group companies to make a payment under certain loans granted to them by ESFIL and/or if ESFIL is obliged to make any payments under its guarantees, such events may affect ESFIL's ability to fulfil its obligations under the Notes issued by it.

There are certain additional factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme: these include the fact the Notes may not be a suitable investment for all investors, certain risks relating to the structure of a particular issue of Notes and certain risks relating to Notes generally.

These risks are not the only ones that the ESFG Group faces. Some risks are not yet known to the ESFG Group and some that the ESFG Group does not currently believe to be material could later turn out to be material.

Operating and financial review

Despite the ongoing challenging environment, ESFG posted positive results for the year ended 31 December 2011. Key highlights for the period were:

- Consolidated net income of EUR 121.4 million for the year ended 31 December 2011, EUR 136.7 million for the year ended 31 December 2010 and EUR 157.5 million for the year ended 31 December 2009;
- Net interest income of EUR 1,244.3 million for the year ended 31 December 2011, EUR 1,189.0 million for the year ended 31 December 2010 and EUR 1,228.6 million for the year ended 31 December 2009;
- Net fee and commission income of EUR 809.7 million for the year ended 31 December 2011, EUR 818.3 million for the year ended 31 December 2010 and EUR 720.7 million for the year ended 31 December 2009;
- Operating income of EUR 3,138.8 million for the year ended 31 December 2011, EUR 3,100.6 million for the year ended 31 December 2010 and EUR 2,952.1 million for the year ended 31 December 2009; and
- Operating expenses of EUR 2,892.7 million for the year ended 31 December 2011, EUR 2,459.0 million for the year ended 31 December 2010 and EUR 2,483.4 million for the year ended 31 December 2009.

General information

Share capital and constitutional documents

ESFG is a limited liability company (*société anonyme*) incorporated under Luxembourg law on 28 November 1984 for an unlimited duration. The registered office and principal place of business of ESFG is located at 21/25 Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg, and its telephone number is + 352 437-227. ESFG is registered with the Luxembourg Register of Commerce and Companies under number B-22.232.

Immediately prior to the publication of this document, the authorised share capital of ESFG was EUR 2 billion, comprising 2 billion ordinary shares of no par value and ESFG's issued share capital was EUR 207,075,338 represented by 207,075,338 ordinary shares of no par value (all of which are fully paid). On 28 October 2011 the nominal value of the Shares was cancelled and the accounting value of each share was reduced to one euro from 10 euros reducing the issued share capital of ESFG to EUR 77,885,518 from EUR 778,855,180.

ESFIL is a limited liability company (*société anonyme*) incorporated under Luxembourg law on 23 December 1993 for an unlimited duration. ESFIL is a wholly owned subsidiary of ESFG. The registered office and principal place of business of ESFIL is located at 21/25 Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg and its telephone number is +352 437-227. ESFIL is registered with the Luxembourg Register of Commerce and Companies under number B-46.338.

The *Statuts* of each of ESFG and ESFIL, which set out its corporate objects and purpose, are filed with the Luxembourg Register of Commerce and Companies.

Summary of the principal terms and conditions of the Notes

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this summary.

Issuers:	Espírito Santo Financial Group S.A. (ESFG) and ESFIL - Espírito Santo Financière S.A. (ESFIL).
Guarantor:	ESFG in relation to any Notes issued by ESFIL.
Description:	Euro Medium Term Note Programme
Arranger:	Banco Espírito Santo de Investimento, S.A.
Dealers:	Banco Espírito Santo de Investimento, S.A. Banco Espírito Santo, S.A. Barclays Bank PLC Credit Suisse Securities (Europe) Limited HSBC Bank plc J.P. Morgan Securities Ltd. Nomura International plc UBS Limited and any other Dealer(s) approved in accordance with the Programme Agreement
Issuing and Principal Paying Agent:	Citibank, N.A., London Branch
Legal and regulatory requirements:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in accordance with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the following restrictions applicable at the date of this Prospectus.
Notes having a maturity of less than one year:	Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution and will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent in any other currency.
Size:	Up to €2,000,000,000 (or its equivalent in other currencies calculated on the date of issue) in aggregate nominal amount of Notes outstanding at any time. The Issuers may increase the aggregate nominal amount of Notes which may be outstanding at any time under the EMTN Programme in accordance with the terms of the Programme Agreement dated 30 May 2012.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the relevant Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).
Redenomination:	If the Specified Currency of Notes of any Series is a currency of one of the Member States of the European Union which has not adopted the euro, such Notes may be subject to redenomination (as indicated in the applicable Final Terms).
Maturities:	The Notes will have any maturity, subject to a minimum maturity of one month, as indicated in the applicable Final Terms or such other minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer and ESFG (where the Issuer is ESFIL) or the relevant Specified Currency, provided that Dated Subordinated Notes will have a minimum maturity of five years and Undated Deeply Subordinated Notes will have no fixed maturity.
Issue Price:	Notes may be issued on a fully paid or a partly paid basis and at an issue price which is at par or at a discount to, or premium over, par. Undated Deeply Subordinated Notes may not be issued on a partly-paid basis.
Form of Notes:	Each Tranche of Notes will be issued in bearer form and, unless specified otherwise in the applicable Final Terms, will initially be represented by a Temporary Global Note which will: (i) if the Notes are intended to be issued in new global note (NGN) form, be deposited on or prior to the relevant Issue Date with a common safekeeper for Euroclear Bank S.A./N.V. (Euroclear) and Clearstream, Luxembourg, société anonyme (Clearstream, Luxembourg), or (ii) if the Notes are not intended to be issued in NGN form, be deposited on or prior to the relevant Issue Date with a common depositary for Euroclear and Clearstream and which in each case will be exchanged as described therein either for a Permanent Global Note or Definitive Notes (as indicated in the applicable Final Terms) not earlier than 40 days after the later of (a) the completion of the distribution of such Tranche or (b) the settlement date for such Tranche (the Exchange Date) upon certification of non-U.S. beneficial ownership as required by U.S. Treasury regulations. Interests in a global Note will only be exchangeable for Definitive Notes in accordance with its terms.

Fixed Rate Notes:	Fixed interest will be payable in arrear on such date as may be agreed between the relevant Issuer and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption and will be calculated on the basis of such Fixed Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer and indicated in the applicable Final Terms.
Floating Rate Notes:	<p>Floating rate interest will be payable in arrear on such date as may be agreed between the relevant Issuer and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer and indicated in the applicable Final Terms.</p> <p>The Margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each issue of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate, or both. Interest periods will be specified in the applicable Final Terms.</p>
Changes of Interest or Redemption/Payment Basis:	Notes may be converted from one Interest or Redemption/Payment Basis to another if so provided in the applicable Final Terms.
Dual Currency Notes:	Payments (whether in respect of principal and/or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the relevant Dealer may agree and as indicated in the applicable Final Terms.
Index Linked Notes:	<p>Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index, index basket and/or formula or to such changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree and as indicated in the applicable Final Terms.</p> <p>Interest on Index Linked Interest Notes will be specified in, or determined pursuant to, the applicable Final Terms which may be by reference to an index, index basket and/or formula.</p>
Instalment Notes:	The Final Terms may provide that Notes may be repayable in two or more instalments of such amounts and on such dates as indicated in the applicable Final Terms.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Other Notes:	The relevant Issuer and the relevant Dealer may agree on the issue of other forms of Notes having terms and conditions modified from those set out herein and described in the applicable Final Terms.
Redemption:	<p>The Final Terms relating to each Tranche of Notes will indicate if such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or noteholders, and if so the terms applicable to such redemption.</p> <p>Any early redemption of a Dated Subordinated Note or an Undated Deeply Subordinated Note will be subject to the prior consent of the Bank of Portugal.</p>
Denomination of Notes:	<p>Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer and as indicated in the applicable Final Terms, save that (i) the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws, directives or regulations applicable to the relevant Issuer or the Specified Currency and (ii) in the case of Notes issued by ESFIL, the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) and (iii) in the case of Notes issued by ESFG, the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €1,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution.</p>
Taxation:	All payments in respect of the Notes will be made without deduction for, or on account of, withholding taxes imposed within Luxembourg, unless such deduction is required by law. In the event that any such deduction is made, the Issuer or, as the case may be, the Guarantor will, save in certain circumstances provided in the Terms and Conditions of the relevant Notes, be required to pay additional amounts to cover the amounts so deducted.

All payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (FATCA), as provided in Condition 5(a) of the Terms and Conditions of the relevant Notes.

Negative Pledge: The terms of the Senior Notes will contain a negative pledge provision as described in Condition 3. The terms of the Dated Subordinated Notes and the Undated Deeply Subordinated Notes will contain no negative pledge.

Cross Default: The terms of the Senior Notes will contain a cross-default provision as described in Condition 9(a)(iii). The terms of the Dated Subordinated Notes and the Undated Deeply Subordinated Notes will contain no cross default provision.

Status of the Notes: The Senior Notes will constitute direct, unconditional, unsecured (subject to Condition 3) and unsubordinated obligations of the relevant Issuer and will rank *pari passu* and rateably without any preference among themselves and equally with all other unsecured and unsubordinated obligations of the relevant Issuer from time to time outstanding (other than obligations mandatorily preferred by law).

The Dated Subordinated Notes will constitute direct, unsecured and subordinated obligations of ESFG and will rank *pari passu* and rateably without any preference among themselves and at least *pari passu* with all other unsecured and dated subordinated obligations of ESFG from time to time outstanding.

The Undated Deeply Subordinated Notes and any relative Coupons will constitute direct, unsecured and deeply subordinated obligations of ESFG and will rank *pari passu* without any preference among themselves. Without prejudice to the foregoing, the Undated Deeply Subordinated Notes will, in the event of a distribution of the assets in the bankruptcy or winding up of ESFG rank senior to the ordinary share capital of ESFG and *pari passu* with the entitlements of holders of preferential shares of ESFG (if any) and the entitlements arising under any guarantee granted by ESFG in respect of any preferential shares issued by any entity in any subsidiary of ESFG.

In order to allow ESFG to continue its business activities (in accordance with the relevant Articles of Aviso 06/10 issued by the Bank of Portugal), any amounts which, subject to the limits of the “*Terms and Conditions of the Undated Deeply Subordinated Notes*” or, as the case may be, the insolvency of ESFG, would be payable as principal or interest under the Undated

Deeply Subordinated Notes, will be available to meet the losses of ESFG.

In the above circumstances where unpaid principal and interest may be used to meet the losses of ESFG, the unpaid nominal amounts of interest first and then principal will be written down and utilised to the extent that may be necessary to meet the losses of ESFG. The written down amounts will only be reinstated as subordinated credits of the corresponding holders as if such amounts had never been written down to the extent that ESFG's Regulatory Capital registers a positive variation resulting from an improvement in ESFG's financial condition as a consequence of gains obtained in the course of ESFG's activities, such reinstatement being made proportionally between the nominal amount of the Undated Deeply Subordinated Notes outstanding, and other instruments outstanding which are also eligible as Tier 1 Capital subject to limits ranking *pari passu* therewith and the shareholders' capital on a *pro rata* basis. In the above cases and at all times, the reinstated amounts previously written down will revert to being treated as subordinated credits of the corresponding holders, with the same level of subordination as before being written down.

During any period of writing down such written down amounts shall not bear interest.

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

Status of the Guarantee:

The payment obligations of the Guarantor under its guarantee in respect of Senior Notes issued by ESFIL (the **Guarantee**) constitute direct, unconditional, unsecured (subject to Condition 3) and unsubordinated obligations of the Guarantor and will rank *pari passu* with all other present and future unsecured (subject as aforesaid) and unsubordinated obligations of the Guarantor (other than obligations mandatorily preferred by law).

Rating:

The rating of certain Series of the Notes to be issued under the EMTN Programme will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Listing and Admission to Trading:

Application has been made to the Luxembourg Stock Exchange for Notes issued under the EMTN Programme to be listed on the Official List of the Luxembourg Stock Exchange and for such Notes to be admitted to trading on the Luxembourg Stock

Exchange's regulated market.

Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state if the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law:

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law, except that Condition 2(c) of the Dated Subordinated Notes and Conditions 2, 4 and 6 of the Undated Deeply Subordinated Notes will be governed by, and construed in accordance with, Portuguese law.

The Guarantee and any non-contractual obligations arising out of or in connection with the Guarantee will be governed by, and construed in accordance with, English law.

The provisions of Articles 86 to 94-8 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, are excluded.

Selling Restrictions:

There are selling restrictions on the offer, sale and transfer of the Notes in the United States and the European Economic Area (including the United Kingdom), see "*Subscription and Sale*". In connection with the offering and sale of particular Notes, additional restrictions may be imposed which will be set out in the applicable Final Terms.

RISK FACTORS

ESFG and ESFIL believe that the following factors may affect its ability to fulfil its obligations under Notes issued under the EMTN Programme which may in turn result in investors losing the value of their investment. Most of these factors are contingencies which may or may not occur and neither ESFG nor ESFIL is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the EMTN Programme are also described below.

ESFG and ESFIL believe that the factors described below represent the principal risks inherent in investing in Notes issued under the EMTN Programme, but the inability of ESFG or ESFIL to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by ESFG or ESFIL based on information currently available to them or which they may not currently be able to anticipate and therefore ESFG and ESFIL do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should consider carefully the following information and also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect ESFG's or ESFIL's ability to fulfil its obligations under Notes issued under the EMTN Programme

This section describes some of the risks that could affect the ESFG Group's businesses.

The risks below are not the only ones that the ESFG Group faces – some risks are not yet known to the ESFG Group and some that the ESFG Group does not currently believe to be material could later turn out to be material. All of these risks could materially affect the ESFG Group's business, its revenues, operating income, net income, net assets and liquidity and capital resources and the price at which the Notes trade.

Deterioration of the financial markets and economic environment

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

In response to the instability and lack of liquidity in the market, the regulatory authorities of some countries, including members of the European Union and the United States, have intervened by injecting liquidity and capital into the financial system with the goal of stabilising the financial markets and, in some cases, with the aim of preventing the insolvency of some financial institutions. Despite these measures, the volatility in the capital markets has continued at an unprecedented rate. The second half of 2010 was marked by the deterioration in European sovereign risk. Investor concern focused on uncertainty surrounding the potential impact of the sovereign risk crisis on the European financial sector, with notable effect on the peripheral economies of the Eurozone. In 2011, these developments created an unfavourable environment for banking and, to a lesser extent, insurance activities.

These volatile conditions led to higher uncertainty regarding the impact of the Eurozone debt crisis on the financial system. This, in turn, had a negative impact on liquidity. From September 2011, European financial institutions faced increasing difficulties accessing liquidity in the interbank money market, while medium and long-term bank debt issuances declined significantly.

Expectations with respect to global economic activity have deteriorated considerably. Tighter liquidity and more restrictive financing conditions constrained investment and consumption growth in Europe. External demand has shown signs of moderation, as the main emerging economies have fought inflationary pressures and the US has continued to face high unemployment rates and low personal income growth.

In order to minimise tensions and instability in the financial markets, the ECB has been providing liquidity to the banking system, conducting regular liquidity injections at short term, one week and one month, at fixed rates and at three months at the average rate in force in the period. In addition, the ECB conducted two new long-term (three years) liquidity facilities in the amounts requested by the banking sector and at the average rate of the main refinancing operations in force in the corresponding period. The first of these operations took place on 21 December 2011, with the ECB lending a total of EUR 489 billion to 523 banks. The second of these operations took place on 29 February 2012 which has provided an additional EUR 529.5 billion to 800 financial institutions. The ECB also announced a new covered bond purchase programme taking place between November 2011 and October 2012, for an amount of EUR 40 billion, with purchases in the primary and secondary markets (the ECB had already conducted a similar programme, in the amount of EUR 60 billion, for a period ending in June 2010). The ECB is also maintaining the secondary market public debt purchase programme initiated in May 2010, under which it has already purchased, in total, more than EUR 200 billion. In July 2011, the ECB announced its decision to suspend the application of the minimum credit rating threshold with respect to the collateral eligibility requirements for refinancing operations in the case of debt securities issued or guaranteed by the Portuguese State, a measure it had already taken with respect to Greece and Ireland. As at 29 February 2012, the ECB's long-term refinancing operations (LTRO) facilities provided to BES amounted to EUR 10.2 billion.

The ECB's two LTRO liquidity facilities led to a stabilisation of financial markets in the first quarter of 2012, and to a general improvement in sentiment. Deposits from monetary financial institutions with the ECB have reached levels close to EUR 800 billion, up from EUR 66 billion at the beginning of the third quarter of 2011, indicating an increased reliance by European financial institutions on ECB funding. Accordingly, the ECB's balance sheet has been increasing considerably, reaching levels of around EUR 3 trillion in the first quarter of 2012.

The downward pressures on growth were not counterbalanced by fiscal policy stimuli, as European governments pursued restrictive fiscal policies, not only in the European periphery economies, but also in the main core European economies, which have recorded a contraction in activity in the last quarter of 2011, and which may have continued during the beginning of 2012. Outside Europe, growth remained relatively strong in the main emerging economies in Asia and Latin America, even if also decelerating. With lower debt ratios and more dynamic domestic demand, these economies have been less vulnerable to the Eurozone debt crisis. Declining inflation towards the end of 2011 strengthened monetary policy's support of economic activity, allaying concerns about a steeper fall in economic growth. In the fourth quarter of 2011, Chinese GDP grew by 8.9 per cent. year-on-year, after rising by 9.1 per cent. in the previous quarter.

The current economic environment creates challenges for the ESFG Group and these include the following:

- There has been a general slowdown in the business of the ESFG Group, an increase in the cost of funding (both wholesale and retail), a decrease in the availability of funding and a reduction in share prices as well as in asset values. If a worsening of these circumstances occurs, the ESFG Group could suffer further negative consequences. Any worsening of the current economic environment could jeopardise the ESFG Group's strategy of developing its businesses through the cross-selling of the full range of banking, insurance and healthcare services offered by its subsidiaries, taking advantage of cost reduction opportunities afforded by a more efficient integration of the ESFG Group's businesses, and of organic growth along with selective localised acquisitions in Portugal and other countries, in particular, where there are cultural affinities with Portugal (which includes high-growth emerging economies, characterised as natural resource-rich with high liquidity pools and ambitious infrastructure development programmes) and impact the ESFG Group's ability to meet client needs, which could adversely affect its profitability.
- The ESFG Group is exposed to a risk of losses if financial institutions or other counterparties to ESFG Group companies become insolvent or, in any event, are not able to meet their obligations to ESFG and/or its subsidiaries. Moreover, the performance of the ESFG Group may be influenced by an inability to recover the value of its own assets at percentage levels consistent with its own historical recovery estimates, which could prove to be no longer accurate within a volatile market.
- Numerous banks worldwide have been and are being supported in part by various "rescue plans" and other types of support by their home country governments. The ESFG Group is uncertain for how much longer governmental support will be needed to keep these banks solvent and whether governments will have the means or the political will to continue this support. If such government support is discontinued, it could result in more bank failures and further loss of confidence in the global banking system, increasing the challenges faced by ESFG and its banking subsidiaries.
- In addition, external intervention from the EU and the IMF might involve a reorganisation of the Portuguese banks. Whilst this may erode their deposit base and negatively impact upon their financing needs, it might also provide the conditions necessary to ensure that Portuguese banks have access to regular funding during the IMF/Eurozone Stabilisation Programme (although the funding requirements originally anticipated may not be enough). This external intervention might also require Portuguese banks to comply with regulatory capital ratios that result in the recapitalisation of Portuguese banks. The Bank of Portugal has already implemented higher minimum Core Tier I ratios for Portuguese banks in December 2011 and December 2012 to 9 per cent. and 10 per cent. respectively. There might also be difficulties in resuming the market's financing when the IMF/Eurozone Stabilisation Programme has finished.

Uncertainty remained during 2011 and has carried on into 2012, with signs of slowdown apparent as national governments start to withdraw the financial stimuli that they introduced in the past as a response to the global financial crisis. Job creation continues to be moderate in developed countries and the high levels of inflation in developing countries has led to their central banks maintaining high interest rates as a counter-measure. Despite recent agreements reached by the EU and Eurozone member states, and the resolution of a Greek bailout plan,

uncertainty regarding the resolution of the European sovereign debt crisis and the stability of the Euro remains.

Such developments, as outlined above, could have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

Prospective investors should ensure that they have sufficient knowledge and awareness of the European sovereign debt crisis, global financial crisis and the economic situation and outlook as they consider necessary to enable them to make their own evaluation of the risks and merits of an investment in the Notes. In particular, prospective investors should take into account the considerable uncertainty as to how the European sovereign debt crisis, the global financial crisis and the wider economic situation will develop over time.

The ESFG Group is largely affected by the Portuguese economy

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

The Portuguese economy has been stagnant since the recession of 2007 and Portugal is experiencing unprecedented pressure on its public finances. Negative macroeconomic conditions in Portugal, higher unemployment, reduced corporate profitability and increased corporate and personal insolvency rates may significantly affect ESFG Group's customers and therefore the level of demand for its products and services. As a result, the ESFG Group's profitability and capital generation could be negatively affected in the short to medium term.

Any further significant deterioration of global economic conditions, including the credit profile of other EU countries, or the creditworthiness of Portuguese or international banks, or changes to the Eurozone, may give rise to concerns regarding Portugal's ability to meet its funding requirements. These concerns could:

- directly impact the value of the ESFG Group's (primarily through the BES Group) portfolio of predominantly Portuguese government bonds (as of 31 December 2011, these totalled approximately EUR 3.1 billion). BES is a market maker of Portuguese sovereign debt and also takes risk positions in such sovereign debt with the amount of its holdings and the portfolio's average maturity varying from time to time as a result of its market making and risk taking activities and its view regarding the attractiveness of such debt. Recently, BES has increased its holdings of Portuguese sovereign debt and lengthened the portfolio's maturity profile. Any permanent reduction in the value of government bonds would be reflected in ESFG's capital position;
- affect the ESFG Group's ability to raise and/or generate capital and meet minimum regulatory capital requirements;
- severely limit the ESFG Group's ability to access liquidity either at an acceptable cost or at all; and
- negatively affect the ESFG Group's capital position, results of operations and financial condition.

On 5 May 2011, Portugal agreed to a stabilisation programme jointly supported by the International Monetary Fund (IMF) and the European Union (EU). The IMF/Eurozone Stabilisation Programme provides significant financial support of EUR 78 billion over the three years following the agreement in the form of a package of IMF and EU funding, including a EUR 26 billion three-year loan under the IMF's Extended Fund Facility at an interest rate based on the Special Drawing Rights rate published by the IMF, with the remaining EUR 52 billion in funding being provided by the EU. The funding will be subject to quarterly reviews of conditionality for the duration of the Stabilisation Programme.

As part of the Stabilisation Programme, Portugal has committed to implement measures to decrease expenses, increase revenues and reduce government debt. The Stabilisation Programme is designed to enhance the country's competitiveness and improve its growth rates in the medium term with a view to repayment of Portugal's sovereign debt. However, there can be no assurance regarding the extent to which the Stabilisation Programme's targets will be met or the impact of austerity measures on economic activity. Proposed economic and other reforms may meet opposition from labour unions and the general public in Portugal, which could adversely affect Portuguese government's ability to implement such measures. Such measures could have a material adverse effect on Portugal's economy, which in turn could have a material adverse impact on the ESFG Group's business, financial condition or results of operations.

A failure to successfully implement the provisions of the Stabilisation Programme and to achieve its fiscal targets may lead to termination of the financial support by the IMF and the EU, which would create the conditions for a credit event with respect to Portugal's government debt. However, even if the Stabilisation Programme is successfully implemented, it is uncertain whether it will achieve its targets. In such a case, market reaction may be negative and business activity may deteriorate, which may have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

The financial adjustment programme agreed with the IMF/EU/ECB, under which the Portuguese economy receives a "bailout package" of EUR 78 billion and which started to be implemented in May 2011, has received three favourable assessments by the official creditors. The public deficit has been reduced from 9.8 per cent. to close to 4.2 per cent. of GDP. Although this was in part achieved through extraordinary measures (principally the partial transfer of banks' pension funds to the general public pension system), it also reflects the efforts undertaken to reduce public expenditure, which grew below budget, and good budget implementation, in line with estimates. A primary surplus of 0.5 per cent. of GDP and a structural deficit of 2.6 per cent. of GDP are expected for 2012 according to Portuguese Ministry of Finance/Government.

Significant headway was made on structural reforms, in an environment of political and social stability. The main measures included: (i) changes in the labour market intended to increase flexibility and reduce production unit costs, with a positive impact on competitiveness; (ii) the reform of the rental market, promoting mobility, the reduction of indebtedness and the absorption of housing supply; and (iii) improving the competition environment, through a programme of privatisations, the end of golden shares, a new competition law aligned to European practice, the reform of the transport sector, the introduction of rules enhancing competition in telecommunications and electricity and the reform of the judicial system, introducing greater flexibility in insolvency and corporate recovery processes.

However, according to the National Statistics Institute of Portugal (INE), the fiscal consolidation effort triggered a contraction of domestic demand in 2011, with public and private consumption retreating by approximately 4 per cent. and investment by approximately 11 per cent. (in average annual terms). Exports of goods and services continued to grow

(above 7 per cent. in real terms), with Africa, Latin America and Asia becoming increasingly important destinations. The performance of net exports cushioned the annual contraction of GDP (estimated at 1.6 per cent.), and contributed, alongside the ongoing deleveraging process in the various sectors of the economy, to a significant decrease of the external deficit - from 8.3 per cent. to 5.1 per cent. of GDP – with an additional reduction being expected for 2012, to around 3 per cent. of GDP. Portugal's net stock of external liabilities has also decreased to close to 103 per cent. of GDP, which compares to a peak of 110 per cent. in 2009.

It remains uncertain whether, even if the Stabilisation Programme is successfully implemented, the Portuguese economy will grow sufficiently to ease the financing constraints of Portugal. Any further significant deterioration of global economic conditions, including the credit profile of other EU countries, or the creditworthiness of Portuguese or international banks, or changes to the Eurozone, may give rise to concerns regarding the ability of Portugal to meet its funding needs.

The ESFG Group's business, financial condition and results of operations may be affected by economic, political or governmental conditions in other countries where it operates

The ESFG Group's performance, financial condition and results of operations are affected by the economic conditions and levels of economic activity in countries other than Portugal where the ESFG Group operates. These countries include, but are not limited to, Angola, Brazil, Mozambique, Spain, the United Kingdom, France, Switzerland, Poland, India, Libya, Panama, the United States, Dubai and Venezuela, among others.

A downturn in the economy of any of these countries could adversely affect the ESFG Group's customers and, therefore, levels of demand for its products and services and as a result, its financial condition and results of operations. Higher unemployment, reduced corporate profitability and increased corporate and personal insolvency rates in other countries outside Portugal, may reduce the ability of borrowers' in those countries to repay loans and may result in an increase in the defaults by the ESFG Group's customers on the loans extended to them, as well as a reduction in the amount of premiums written in the insurance business.

Protracted economic decline could reduce the overall level of economic activity in the market, thereby reducing the ESFG Group's ability to collect deposits and forcing it to satisfy its liquidity requirements by resorting to the more expensive capital markets and wholesale markets as a result.

In addition, the ESFG Group's international operations are exposed to the risk of possible adverse political, governmental or economic developments in the countries in which they operate. These factors could have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

The ESFG Group is exposed to sovereign debt

As a consequence of the recent deterioration in their financial condition, certain EU and other governments may be unwilling or unable to repay principal or pay interest when due, either in full or in part, on their respective debt obligations. In the event of default, there may be limited or no legal recourse.

The ability and willingness of a sovereign borrower to make timely and complete payments on its debt obligations will also be affected by its revenue (including through taxation) generation, balance of payments, including export performance, its access to international credit facilities and investments, fluctuations of interest rates and the extent of its foreign

reserves. Additionally, a default of any one of such sovereign borrowers could create or further increase the negative sentiment in relation to other sovereigns of the Euro area.

As of 31 December 2011, ESFG Group (primarily through the BES Group) held EUR 3.1 billion of predominantly Portuguese government bonds, 74.0 per cent. of which were treasury bills maturing within one year. As of 31 December 2011, the ESFG Group did not have any material exposure to Greek, Irish or Spanish sovereign debt.

BES is a market maker of Portuguese sovereign debt and also takes risk positions in such sovereign debt with the amount of its holdings and the portfolio's average maturity varying from time to time as a result of its market making and risk taking activities and its view regarding the attractiveness of such debt. Recently, BES has increased its holdings of Portuguese sovereign debt and lengthened the portfolio's maturity profile.

Any such default or any such increase in negative sentiment may have a negative impact on the value of the sovereign debt holdings of the ESFG Group.

ESFG Group's borrowing costs and liquidity levels may be negatively affected by further downgrades of Portugal's sovereign ratings

Portugal's long-term debt rating was downgraded, most recently, to Ba3 by Moody's Investors Service on 13 February 2012, to BB by Standard & Poor's on 13 January 2012, to BB+ by Fitch Ratings on 24 November 2011 and BBB (low) by DBRS Inc. on 30 January 2012. All four rating agencies have a "negative" outlook on the Portuguese Republic's ratings and, on 22 May 2012, DBRS Inc. placed its ratings of the Republic of Portugal's long-term foreign and local currency debt under review with negative implications. Any further downgrade to Portugal's credit ratings may increase the cost of financing Portuguese public debt, which could adversely affect Portuguese economic conditions.

It is expected that, if Portugal's credit rating is downgraded further, the credit ratings of ESFG and BES by Moody's Investors Service and DBRS Inc. and the credit rating of BES by Standard & Poor's may also be downgraded shortly after. A further downgrade in Portugal's ratings may also adversely impact the ESFG Group's cost of funding and could result in the withdrawal of deposits from the ESFG Group and therefore materially adversely affect the ESFG Group's business, financial condition and results of operations.

A further downgrade or series of downgrades in the rating of Portuguese government debt could adversely impact the extent to which the ESFG Group can use such bonds as collateral. Any further downgrade may prejudice the eligibility of Portuguese government bonds as collateral for ECB refinancing. A further downgrade or series of downgrades of the sovereign rating of Portugal may have a systemic effect on the Portuguese banking sector, may have adverse effects for the Portuguese economy and the ESFG Group's ability to issue bonds, or make it more difficult and/or more expensive for the ESFG Group to access sources of capital and funding.

Further reductions in the ESFG Group's credit ratings could increase the cost of borrowing and adversely affect its ability to raise new funds or renew maturing debt

On 7 October 2011, Moody's Investors Service announced that it had downgraded certain debt ratings of ESFG. ESFG's long-term rating was downgraded to B1 from Ba2, its senior subordinated debt was downgraded to B2 from Ba3, and the rating of its junior subordinated debt was downgraded to Caa1 from B2. All ratings carried a negative outlook for possible future downgrade. Moody's Investors Service maintained ESFG's short-term rating at NP. Portugal's sovereign debt ratings were downgraded by Moody's Investors Service to Ba3

from Ba2 as announced on 13 February 2012 and referred to in “*Risk Factors – ESFG Group’s borrowing costs and liquidity levels may be negatively affected by further downgrades of Portugal’s sovereign ratings*”. On 28 March 2012, ESFG’s long-term rating was downgraded by Moody’s Investors Service to B2 from B1 (negative outlook), its senior subordinated debt rating was downgraded to B3 from B2 (negative outlook) and the rating of its junior subordinated debt was downgraded to Caa2 from Caa1. Moody’s Investors Service has maintained ESFG’s short-term rating at NP.

On 7 October 2011, BES’ long-term rating was downgraded by Moody’s Investors Service to Ba2 from Ba1, its senior subordinated debt rating was downgraded to Ba3 from Ba2, its junior subordinated debt rating was downgraded to B1 from Ba3 and its government backed senior unsecured debt rating was downgraded to Ba2 from Ba1. Moody’s Investors Service also downgraded BES’ standalone bank financial strength to D– from D+. All ratings carried a negative outlook for possible future downgrade. On 28 March 2012, Moody’s Investors Service downgraded BES’ standalone bank financial strength rating (BFSR) to E+ (B1) from D– (Ba3) (negative outlook), its long-term rating to Ba3 from Ba2 (negative outlook), its senior subordinated debt to B2 from Ba3 (negative outlook), its junior subordinated debt to B3 from B1 and its government backed senior unsecured debt rating to Ba3 from Ba2 (negative outlook).

On 20 April 2011, DBRS Inc. initiated ratings coverage on the ESFG Group, assigning a senior long-term debt rating of BBB (high) and a short-term debt rating of R–2 (high), with a negative trend on all ratings. On 9 May 2011, DBRS Inc. assigned a BBB rating with a negative trend to ESFG’s EUR 400 million 6.875 per cent. Subordinated Notes due 2019 (of which EUR 351.1 million remain outstanding). On 20 October 2011, DBRS Inc. announced that it had downgraded the ratings of ESFG, following the downgrade of Portugal. The senior long-term rating of ESFG has been downgraded to BBB from BBB (high), with the trend remaining negative. DBRS Inc. has confirmed the short-term instruments rating of R–2 (high) with a negative trend. On 31 January 2012, DBRS Inc. announced that it had downgraded the ratings of ESFG, following the downgrade of Portugal. The short-term instruments rating of ESFG was downgraded to R–2 (middle) from R–2 (high) and the senior long-term rating of ESFG was downgraded to BBB (low) from BBB, with a negative trend on all ratings. On 21 March 2012, DBRS lowered ESFG’s intrinsic assessment (IA) to BBB (low) from BBB (high). DBRS has maintained ESFG’s short-term instruments rating at R-2 (middle) and its senior long-term rating at BBB (low), with a negative trend on all ratings. On 24 May 2012, DBRS Inc. announced that it had placed its ratings of ESFG under review with negative implications following a similar rating action on the Republic of Portugal on 22 May 2012. On 31 January 2012, DBRS, Inc. announced that it had downgraded the ratings of BES, following the downgrade of Portugal. The short-term debt and deposit rating of BES was downgraded to R–2 (middle) from R–2 (high) and the senior long-term debt and deposit rating of BES was downgraded to BBB (low) from BBB, with a negative trend on all ratings. On 24 May 2012, DBRS Inc. announced that it had placed its ratings of BES under review with negative implications following a similar rating action on the Republic of Portugal on 22 May 2012.

On 14 February 2012, Standard & Poor’s announced that it had downgraded certain ratings of BES, following the downgrade of Portugal. BES’ long-term counterparty credit rating was downgraded to BB– from BB with a negative outlook, its issue ratings on senior debt was downgraded to BB– from BB, its non-deferrable subordinated debt rating was downgraded to B from B+ and its hybrid instruments rating was downgraded to B– from B. BES’ short-term rating of B was affirmed.

Each of DBRS, Fitch Ratings, Moody's Investors Service and Standard & Poor's is, or has affiliates, established in the European Community and registered under Regulation (EC) No 1060/2009 on credit rating agencies (the **CRA Regulation**). The list of credit rating agencies registered in accordance with the CRA Regulation is published on the European Securities and Markets Authority (**ESMA**)'s website.

Any downgrade in credit ratings may impact the ESFG Group's ability to raise funding, or the cost of such funding, and may have a material adverse effect on its business, financial condition and results of operations.

There can be no guarantee that ESFG or the ESFG Group will not be subject to further downgrades and any further downgrades could have a materially adverse effect on the amount and price of its funding, limit its access to the capital and funding markets, trigger material collateral requirements in derivative contracts or other secured-funding arrangements and weaken the ESFG Group's competitive position.

Any further downgrades may also lead to significant withdrawals of deposits with the ESFG Group which would result in a material adverse effect on its funding and liquidity position.

Increased capital requirements may require ESFG to raise additional capital

At 31 December 2011, the ESFG Group's Core Tier I ratio and Tier I ratio were 8.3 per cent. and 8.6 per cent., respectively, calculated under the Basel II, IRB Foundation Method.

At 31 December 2011, the Core Tier I ratio and Tier I ratio of the BES Group were 9.2 per cent. and 9.4 per cent., respectively, under the Basel II, IRB Foundation Method.

On 26 April 2012, ESFG issued 102,040,816 New Shares. ESFG has applied the proceeds from the issue of the New Shares to strengthen its Core Tier I capital on a consolidated basis and, in particular, by subscribing for ESFG's full entitlement in BES' capital increase which completed on 11 May 2012, in order for ESFG to meet the required EBA Core Tier I capital ratio of 9 per cent. by 30 June 2012 and towards meeting the Bank of Portugal Core Tier I capital ratio of 10 per cent. by 31 December 2012.

On 26 April 2012, ESFG also announced that, based on risk weighted assets as at 31 December 2011, the issue of the New Shares results in ESFG's core capital position (CET1) increasing to 9.5 per cent. (including the sovereign capital buffer required by the EBA) and to 10.0 per cent. calculated under the Basel II, IRB Foundation Method.

ESFG will continue to adopt measures in order to continue to meet the EBA's minimum level of Core Tier I capital of 9 per cent. by 30 June 2012 and the Bank of Portugal's minimum level of Core Tier I capital of 10 per cent. by 31 December 2012. The failure to meet the new minimum Core Tier I ratios by the prescribed deadlines may have a material adverse effect on the ESFG Group's financial condition and results of operations as the Bank of Portugal could, among other measures, restrict dividend payments by BES to ESFG and/or by BES' banking affiliates.

Changes in the regulatory environment or additional regulatory restrictions/requirements

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

Banking, insurance and financial services laws, regulations and policies currently governing the activities of the ESFG Group may change at any time in ways which could have an adverse effect on its business. Furthermore, the ESFG Group cannot predict the timing or form of any future regulatory initiatives. Changes in existing banking, insurance and financial services laws and regulations may materially affect the way in which the ESFG Group conducts its business, the products and services it may offer and the value of its assets.

In particular, the ESFG Group's banking and insurance activities are subject to extensive regulation by the ECB, the Bank of Portugal and the Portuguese Insurance Institute (*Instituto de Seguros de Portugal*, ISP), mainly relating to liquidity levels, solvency, provisioning and insurance policy terms and conditions. In addition to the Core Tier I and Tier I requirements set out under the heading "*Capital and solvency ratios*", the following regulatory requirements apply to the ESFG Group.

- The minimum cash requirement applicable to Portuguese banks is currently fixed at 1 per cent. of the total amount of deposits. An increase in this minimum cash requirement or a decline in the rate accrued on those cash reserves would have an adverse impact on the ESFG Group's net income.
- The Bank of Portugal has established minimum provisioning requirements regarding current loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies. Therefore, any change in these requirements could have a material adverse impact on the ESFG Group's results of operations.
- The Basel Committee on Banking Supervision (Basel Committee) announced recently a substantial strengthening of existing capital rules, particularly as a result of the capital structure weaknesses demonstrated by the banking sector during the recent financial crisis. The new bank capital rules will be applicable from 1 January 2013 and may have a significant impact on the ongoing activities and on the capital structure of the ESFG Group. The Basel Committee's package of reforms will increase the minimum common equity requirement from 2 per cent. to 4.5 per cent. In addition, banks will be required to hold a capital conservation buffer of 2.5 per cent. to withstand future periods of stress bringing the total common equity requirements to 7 per cent.
- In May 2011, following the Portuguese government's request for assistance and the signing of the Memorandum of Economic and Financial Policies (MEFP) between the Portuguese government and the Troika, the Bank of Portugal published Notice 3/2011 under which new minimum levels of Core Tier I capital for Portuguese regulated banking institutions were set: 9 per cent. by 31 December 2011 and 10 per cent. by 31 December 2012.
- The Bank of Portugal and the ECB, in consultation with the EC and the IMF, established clear periodic target leverage ratios that required Portuguese banks to develop institution specific medium-term funding plans by 30 June 2011 to achieve a stable market-based funding position. The Troika will make, from time to time, period reviews of banking activities in Portugal.
- The increase in supervision resulting from the Stabilisation Programme may result in ESFG facing the need to increase its capital base further or to restrict its policy regarding earnings distribution.

- Additionally, the ESFG Group may also be subject to additional constraints on the way it manages assets and liabilities and may be affected by the triggering of public recapitalisation mechanisms (which are subject to conditions) specifically provided for by the Stabilisation Programme.
- On 15 July 2011 the Bank of Portugal announced the results of the EU-wide stress test for 2011 conducted by the EBA, the EC and the European Systemic Risk Board. The results calculated for the ESFG Group, based on the assumptions and methodology defined by the EBA, confirmed a Core Tier I ratio of 5.8 per cent. in 2012 under the adverse scenario, after taking account of divestments and other management action taken by 30 April 2011, compared to 6.4 per cent. as of the end of 2010.
- On 10 January 2012, the Bank of Portugal, taking into account the results of the EBA stress test, published Notice 5/2012 under which it confirmed the new minimum level of the Core Tier I capital ratio, set at 9 per cent., to be achieved by 30 June 2012.

The regulatory laws governing the activity of the ESFG Group may change at any time in ways which may have an adverse effect on its business. Furthermore, the ESFG Group cannot predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which the ESFG Group conducts its business, the products and services it may offer and the value of its assets and may have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

In addition, the ESFG Group's operations are subject to national regulation in each jurisdiction in which it operates. Often these regulations are complex and costly to comply with in terms of time and other resources. Breach of applicable regulations may lead to penalties, fines, compliance costs, reputational harm and even loss of licences to operate. For example, in October 2011, the ESFG Group settled with the U.S. Securities and Exchange Commission in respect of various alleged violations of U.S. securities laws relating to engaging in certain transactions in the United States and has agreed to pay U.S.\$7 million. Recently BES has also settled with the Federal Reserve Board and agreed to pay a U.S.\$795,000 penalty with respect to the sale of unregistered securities to U.S. customers.

Key minority interests in ESFG Group companies

The ESFG Group has made most of its investments in association with partners in the financial services industry in order to maximise its resources. The ESFG Group's most significant association has been with Crédit Agricole, in the acquisition of, and as a strategic partner in the management and operation of BES. Any change of circumstances, or strategy, of any of the strategic partners of the ESFG Group that hold key minority interests in ESFG Group companies may have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

As a financial services holding company, ESFG may from time to time acquire or dispose of participating interests in other companies, including in association with partners in the financial services industry. In the event that ESFG, whether directly or through any of its subsidiaries (including BES), engages in any such acquisition or disposal activity, this could have an adverse effect on the solvency of the ESFG Group or such subsidiary.

Compliance with anti-money laundering and anti-terrorism financing rules involves significant cost and effort

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

In October 2005, BES and other Portuguese credit institutions were subject to investigation procedures directed by the Public Prosecutor (*Ministério Público*), in the context of a criminal investigation related to suspicions of money laundering and fiscal fraud involving some customers of BES. The investigations are ongoing and are being conducted exclusively by the Public Prosecutor.

Market risk

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

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 BES Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99 per cent. and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. Other initiatives have also been developed to improve on the VaR assessment, such as back testing, which consists of comparing the losses foreseen by the VaR model with actual losses. Although these exercises permit the BES Group to fine-tune the model and improve its predictive capabilities, along with stress testing which has also been developed in order to permit the BES Group to assess the impact of higher potential losses than those considered using VaR valuation, the ESFG Group will be subject to losses whenever these procedures are insufficient to adequately manage the risk of possible losses resulting from adverse changes in the value of financial instruments.

Credit risk

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

The ESFG Group faces the risk of its borrowers and counterparties being unable to fulfill their payment obligations towards the ESFG Group. While the ESFG Group analyses its exposure to such borrowers and counterparties on a regular basis, as well as its exposure to certain economic sectors and regions which the ESFG Group believes to be particularly critical, payment defaults may result from circumstances which are unforeseeable or difficult

to predict. In addition, the security and collateral provided to the ESFG Group may be insufficient to cover its exposure, for example, as a result of a sudden depreciation in the market which dramatically reduces the value of collateral. If borrowers or other counterparties fail to comply with their payment obligations to the ESFG Group, this would have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

The BES Group uses internal systems to rate, quantify, monitor and manage credit risk. Nevertheless, the provisions regarding future credit losses may prove to be inaccurate for a number of reasons. Factors such as unexpected deterioration of global economic conditions, unexpected political events or a general lack of liquidity in the economy may result in credit losses which exceed the amount of provisions of the ESFG Group or the maximum expected losses planned through the risk management procedures.

As the ESFG Group's transactions are mainly located in Portugal, the ESFG Group is particularly exposed to the risk of a general economic contraction or to another event affecting default rates in Portugal.

If the macro-economic condition of Portugal and the other markets where the ESFG Group carries on its business continue to weaken, unemployment increases or interest rates increase sharply, the creditworthiness of the ESFG Group's customers may deteriorate. Provisions for credit losses and other reserves may not be adequate and it may have to make significant additional provisions for possible impairment losses in future periods which could have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

Operational risk

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

The ESFG Group is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised fraud, as a result of the ESFG Group's financial operations), breach or delays in providing services and in complying with risk management requirements. The ESFG Group continually monitors these risks by means of, among other things, advanced administrative and information systems and insurance coverage in respect of certain operational risks.

To manage operational risk, the ESFG Group implemented a system that standardises, systematises and regulates the frequency of actions viewing the identification, monitoring, control and mitigation of risk. However, the ESFG Group may be unable successfully to monitor, manage or prevent these risks in the future. Any failure to execute successfully the ESFG Group's risk management and control policies could have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

Technological risk

The ESFG Group's subsidiaries are increasingly dependent on information technology systems, which may fail, may not be adequate to the tasks at hand or may no longer be available. Banks, insurers and healthcare operators are increasingly dependent on highly sophisticated information technology (IT) systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, malicious hacking, physical damage to vital IT centres and computer viruses. Harmonising the IT systems in the BES Group to create a consistent IT architecture poses significant challenges. IT systems need regular upgrading to meet the needs of changing business and regulatory requirements and to keep pace with growth. The ESFG Group may not be able to implement necessary upgrades on a timely basis, and upgrades may fail to function as planned. The ESFG Group's banking subsidiaries could face fines from bank regulators if its IT systems fail to enable it to comply with applicable banking or reporting regulations. Any such IT systems failure could have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

Liquidity risk

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

Within their normal course of business, banking subsidiaries of the ESFG Group (including the BES Group) grant credit to, and receive deposits from, their customers. The medium to long term nature of customer loans compared to the short term nature of customer deposits creates a mismatch in the maturity profile of ESFG's consolidated assets and liabilities.

The ESFG Group's liquidity could be impaired by an inability to access debt markets, an inability to sell assets or redeem its investments, outflows of cash or collateral deterioration. This situation may arise due to circumstances that the ESFG Group is unable to control, such as continued general market disruption, loss in confidence in financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties.

Recent events in global markets have exacerbated this risk. Disruption in the global credit markets has negatively affected the inter-bank markets and debt issues in terms of volume, maturity and credit spreads and has resulted in volatility, limited or no access to the debt capital markets for financial institutions, reduced inter-bank liquidity and the widening of credit spreads.

During 2011, access to the repo facilities at the ECB continued to be fundamental to offset the inaccessibility of the financial markets in the short and medium term. During 2011, BES increased the amount outstanding with the ECB by EUR 4.0 billion to EUR 8.8 billion as at 31 December 2011. Following the ECB's long-term refinancing operation of 29 February

2012, BES' total amount outstanding of long-term borrowings with the ECB was EUR 10.2 billion.

In total, the ESFG Group's portfolio of repoable securities reached EUR 18.9 billion at the end of December 2011, of which EUR 15.1 billion are eligible for repo with the ECB.

As at 31 December 2011, ECB funding of EUR 8.8 billion represented 10.4 per cent. of total consolidated assets of the ESFG Group. BES continues to review measures to diversify away from the ECB and, at the end of September 2011, entered into a three year credit facility agreement for a loan in the amount of US\$300 million from China Development Bank. Following the ECB's long-term refinancing operation of 29 February 2012, BES' total amount outstanding of long-term borrowings with the ECB was EUR 10.2 billion.

Continued volatility in the financial capital markets could lead to significant further market-wide liquidity problems. If current market conditions deteriorate further, or continue for a prolonged period of time, there may be a decline in the availability of funding for the ESFG Group from the debt capital markets or from the inter-bank markets, which may have a negative impact on the business, financial condition and results of operations of the ESFG Group.

Even a perception among market participants that a financial institution is experiencing greater liquidity risk can cause significant damage to the institution. Specific ways in which the ESFG Group could find its liquidity impaired include the following:

- The ESFG Group's ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time or are not in the position to finance themselves, or when the market value of assets, including financial instruments underlying derivative transactions to which a member of the ESFG Group is a party, is difficult to ascertain, as has occurred in current market conditions.
- Financial institutions with which the ESFG Group interacts may exercise set-off rights or the right to require additional collateral, which could further impair the ESFG Group's access to liquidity.
- An increase in interest rates and/or credit spreads, as well as the restriction on the availability of credit, including, but not limited to, inter-bank credit, can impact the ESFG Group's ability to borrow on a secured or unsecured basis. Given the current disruption in the credit markets, the ESFG Group may be forced to fund its operations at a higher cost or it may be unable to raise as much short- or long-term funding as it needs to support its business activities.

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

Funding risk

ESFG raises funds by issuing ordinary and preferred shares and senior, subordinated and deeply subordinated notes in the international capital markets. It uses these funds to fund investments and to meet the capital requirements set and regulated by the Bank of Portugal. At the end of July 2009, ESFIL and ESFG established a EUR 1 billion Euro Commercial Paper Programme (ECP Programme). Commercial paper issued by ESFIL under the ECP Programme is unconditionally and irrevocably guaranteed by ESFG. The amount of short term debt outstanding under the ECP Programme, issued by ESFIL, at 31 December 2011

was EUR 453.2 million. On 6 May 2011 ESFG and ESFIL established this EMTN Programme and on 31 May 2011 ESFIL issued EUR 100 million 7.00 per cent. Fixed Rate Notes due 31 May 2013 under the EMTN Programme which are guaranteed by ESFG.

The following table shows all of ESFG Group's sources of funds as at 31 December, 2009, 2010 and 2011:

	As at 31 December		
	2009	2010	2011
	(in millions of euro)		
Funding Sources			
Convertible Debt.....	500.0	500.0	311.8
Subordinated Debt (Tier II)	400.0	400.0	351.1
Preferred Shares (Tier I).....	400.0	400.0	74.3
Share Capital*	778.5	778.5	806.0
Total	2,078.5	2,078.5	1,543.5

*Including non-distributable capital reserve

ESFG Group's banking subsidiaries, the BES Group, have established a funding policy for all types of liabilities, from customer funding (customer deposits) to issuing ordinary and preferred shares and the use of financing instruments in the financial markets. The funding mechanisms used by the BES Group include interbank lines, certificates of deposit and commercial paper programmes (ECP and USCP) for short-term funding and the euro medium term note programme (for issuing senior and subordinated debt), credit lines, covered bonds and other instruments for medium- and long-term funding.

BES currently has limited access to the international debt capital markets and relies on ECB funding. As at 31 December 2011, net ECB funding of EUR 8.8 billion represented 10.9 per cent. of total consolidated net assets of BES. BES is exposed to any changes in ECB rules regarding collateral eligibility or valuation or increased costs of using the refinancing facilities as such changes could result in the BES Group being forced to dispose of assets, potentially at significant discounts to book value, in order to meet its obligations, with a corresponding negative impact on capital. Following the ECB's long-term refinancing operation of 29 February 2012, BES' total amount outstanding of long-term borrowings with the ECB was EUR 10.2 billion.

In light of recent volatility and disruption in the global capital and credit markets, the BES Group has actively continued to promote the diversification of its funding sources as part of its prudent liquidity management policy in order to ensure a high-quality, liquid asset base. To strengthen its liquidity position and reinforce contingency tools under stress scenarios the BES Group has undertaken additional funding initiatives, such as increasing assets eligible for rediscount with the ECB and the Federal Reserve notably through securitising portions of its securities and loan portfolio. Although BES continues to review measures to diversify away from ECB funding and at the end of September 2011 entered into a three year credit facility agreement for a loan in the amount of US\$300 million from China Development Bank, increased funding costs or a prolonged interruption in renewing funding would have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

Competition

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

The ESFG Group faces intense competition in all of its areas of operation; in particular, competition in the Portuguese banking (deposits, mortgages, consumer credit, leasing, investment banking, specialised credit and asset management) and insurance markets. The ESFG Group's competitors in the Portuguese markets are Portuguese commercial banks, savings and investment banks, foreign banks, and domestic and foreign insurance companies. Competition has increased further with the emergence of non-traditional distribution channels, such as internet and telephone banking. The ESFG Group's principal competitors in banking (ranking in terms of assets as of 31 December 2011) as well as insurance activities (in terms of premiums as of 31 December 2011) are Caixa Geral de Depósitos Group, Millennium BCP Group, BPI Group and Santander Totta Group in the banking sector and Caixa Geral de Depósitos Group, Millennium BCP Fortis, Santander Totta, AXA, Allianz, Banif, and BPI Vida in the insurance sector.

Competition is affected by consumer demand, technological changes, and the impact of consolidation, regulatory actions and other factors. If the ESFG Group is unable to provide attractive product and service offerings that are profitable, it may lose market share or incur losses on some or all activities.

Although the ESFG Group believes that it is in a strong position to continue to compete in the Portuguese market, there can be no assurance that it will be able to compete effectively in the markets in which it operates, or that it will be able to maintain or increase the level of its results of operations.

In addition, the ESFG Group also faces significant competition in its operations outside Portugal from other commercial and investment banks and financial institutions, particularly those with ties to Portugal, such as in the Angolan market, where competition remains quite robust with international banks competing against a number of strong local and regional banks.

Insurance risk

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

The availability and cost of reinsurance is primarily related to factors such as prevailing insurance premiums, levels of insured claims, underwriting policies and processes of the reinsured, levels of insurance, industry surplus and use of underwriting capacity, which may in turn fluctuate in response to changes in rates of return on investments earned in the reinsurance industry. Changes in the reinsurance industry may affect the results of ESFG's insurance subsidiaries.

Structure of the ESFG Group and ESFG's dependence on dividends from its subsidiaries

ESFG is a financial holding company, holding and administering participating interests in other companies. It does not conduct business of its own. Dividends from ESFG's direct and indirect subsidiaries, together with investment income, are ESFG's main source of funds to pay interest and other expenses and any dividends. The inability (which may result from a recommendation of the Bank of Portugal not to pay dividends, and as a result of such a recommendation with respect to BES' dividend for the financial year ended 31 December 2011, BES did not pay a dividend with respect to the financial year ended 31 December 2011) of ESFG's direct and indirect subsidiaries to pay dividends in an amount sufficient to enable ESFG to meet its cash requirements at the holding company level could have a material adverse effect on its business, its ability to pay dividends and its ability to pay interest and/or capital in connection with its debt obligations and other borrowings.

Future capital raising measures by BES may result in a dilution of ESFG's rights

As of 21 May 2012, ESFG held a 37.0 per cent. voting and a 27.7 per cent. economic interest in BES. ESFG has applied the proceeds from the issue of New Shares to strengthen its Core Tier I capital on a consolidated basis and, in particular, by subscribing for ESFG's full entitlement in BES' capital increase which completed on 11 May 2012. However, any future capital raising measures undertaken by BES, ESFG's principal subsidiary, could dilute ESFG's ownership percentage of BES.

Majority shareholders

As at 21 May 2012, Espírito Santo International and its wholly owned subsidiary Espírito Santo Irmãos together held, directly or indirectly, 42.95 per cent. of the issued share capital of ESFG. There can be no assurance that the interests of the majority shareholders of ESFG will coincide with the interests of other shareholders of ESFG.

Factors that may affect ESFIL's ability to fulfil its obligations under the Notes issued by it under the EMTN Programme

The principal activity of ESFIL is the acquisition of interests in other Luxembourg or foreign companies and investment in industrial or trading companies. It also participates in the organisation and development of industrial or trading companies by granting assistance to such companies in the form of loans, guarantees or in any other way. In particular, ESFIL holds the Guarantor's interests in Banque Privée Espírito Santo, S.A., an asset management company based in Lausanne, and the Guarantor's interest in Banque Espírito Santo et de la Vénétie, S.A., a small bank based in Paris. ESFIL is also engaged in the financing of Espírito Santo International S.A. and certain of its subsidiaries' long-term investments. In the event that any of these companies fails to make a payment under any such loans and/or ESFIL is obliged to make any payments under its guarantees, ESFIL may not be able to meet its payment obligations under the Notes issued by it under the EMTN Programme.

U.S. Foreign Account Tax Compliance Withholding

Pursuant to sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) or similar law implementing an intergovernmental approach to FATCA, the Issuer and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made on or after 1 January, 2017 in respect of (i) any Notes issued on or after 1 January, 2013 and (ii) any Notes which are treated as equity for U.S. federal tax purposes, whenever issued. This withholding tax may be triggered if (i) the Issuer is a foreign financial institution (**FFI**) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders (making the Issuer a **Participating FFI**), (ii) the Issuer has a positive “passthru payment percentage” (as calculated pursuant to FATCA), and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of such Issuer, or (b) any FFI, that is an investor, or through which payment on such Notes is made is not a Participating FFI.

The application of FATCA to interest, principal or other amounts paid with respect to the Notes is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes, neither the Issuer nor the Guarantor nor any paying agent nor any other person would, pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of Notes should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change. The application of FATCA to Notes issued on or after 1 January, 2013 (or whenever issued, in the case of Notes treated as equity for U.S. federal tax purposes) may be addressed in the relevant Final Terms or a supplement to the Prospectus, as applicable.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the EMTN Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement to this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor’s currency;

- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and/or financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments in an attempt to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

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

Notes subject to optional redemption by the Issuer

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

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

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuers may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;

- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes of a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

The Issuers may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

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

Notes issued at a substantial discount or premium

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

ESFG's obligations under Dated Subordinated Notes are subordinated

ESFG's obligations under the Dated Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to senior creditors. Although the Dated Subordinated Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a real risk that an investor in the Dated Subordinated Notes will lose all or some of his investment should ESFG become insolvent.

The issue of debt securities by ESFG that rank senior to, or *pari passu* with, the Dated Subordinated Notes may reduce the amount recoverable by investors upon the bankruptcy of ESFG. The Dated Subordinated Notes are subordinated obligations of ESFG. Accordingly, in the winding-up of ESFG, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders.

Risks relating to Undated Deeply Subordinated Notes

The Undated Deeply Subordinated Notes are deeply subordinated obligations and will be subordinated to all of ESFG's existing and future indebtedness

The Undated Deeply Subordinated Notes are by their terms deeply subordinated in right of payment to all current and future unsubordinated and subordinated (other than deeply subordinated) indebtedness of ESFG. In the event of a distribution of the assets in the dissolution or liquidation of ESFG the rights of payment of the holders of Undated Deeply Subordinated Notes shall rank in priority only to any payments to holders of ESFG's shares. In the event of incomplete payment of unsubordinated creditors, the obligations of ESFG in connection with the Undated Deeply Subordinated Notes will be terminated. Although the Undated Deeply Subordinated Notes may pay a higher rate of interest than comparable notes which are not deeply subordinated, there is a greater potential risk that an investor in the Undated Deeply Subordinated Notes will lose all or some of its investment should ESFG become insolvent.

The issue of debt or securities by ESFG that rank senior to, or *pari passu* with, the Undated Deeply Subordinated Notes may reduce the amount recoverable by investors upon the bankruptcy or winding up of ESFG. If ESFG's financial condition were to deteriorate, the holders of Undated Deeply Subordinated Notes could suffer direct and materially adverse consequences, including cancellation of interest and reduction of interest and principal and, if ESFG were liquidated (whether voluntarily or involuntarily), the holders of Undated Deeply Subordinated Notes could suffer loss of their entire investment.

There are no events of default under the Undated Deeply Subordinated Notes

The "*Terms and Conditions of the Undated Deeply Subordinated Notes*" do not provide for events of default allowing acceleration of the Undated Deeply Subordinated Notes if certain events occur and the holders of Undated Deeply Subordinated Notes will not be entitled to initiate insolvency proceedings against ESFG for failure of any payment under the Undated Deeply Subordinated Notes. Accordingly, if ESFG fails to meet any obligations under the

Undated Deeply Subordinated Notes, including the payment of any interest, investors will not have the right of acceleration of principal.

The Undated Deeply Subordinated Notes will be available to cover losses of ESFG

The Undated Deeply Subordinated Notes are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Tier 1 Capital of ESFG. See Condition 2(a) of the Undated Deeply Subordinated Notes (“*Status and subordination of the Undated Deeply Subordinated Notes*”). Such eligibility depends upon a number of conditions being satisfied, which are reflected in the “*Terms and Conditions of the Undated Deeply Subordinated Notes*”. One of these relates to the ability of the Undated Deeply Subordinated Notes and the proceeds of their issue to be available to absorb any losses of ESFG. Accordingly, in certain circumstances and/or upon the occurrence of certain events, payments of interest under the Undated Deeply Subordinated Notes may be restricted and, in certain cases, forfeited and the amount of interest and the principal amount of the Undated Deeply Subordinated Notes may be reduced. See Conditions 2(b) and 4(d) of the Undated Deeply Subordinated Notes (“*Loss Absorption*” and “*Interest Cancellation*”).

Under the mentioned conditions, the Undated Deeply Subordinated Notes will be available and may be used to absorb losses of ESFG, if that is necessary for ESFG to continue its business activities, proportionally between the nominal amount of the Undated Deeply Subordinated Notes, other undated deeply subordinated notes ranking *pari passu* therewith and the share capital of ESFG on a *pro rata* basis, in accordance with a decision taken by the Board of Directors of ESFG to that effect or further to a direction received from the Bank of Portugal in case ESFG is at risk of failing to comply with the Own Funds Requirements Regulations applicable to it. In these circumstances the nominal amount of the Undated Deeply Subordinated Notes will be reduced to the extent necessary to absorb ESFG’s losses, whenever the amount of ESFG’s Regulatory Capital (as defined in the “*Terms and Conditions of the Undated Deeply Subordinated Notes*”) excluding the Undated Deeply Subordinated Notes and other instruments also eligible to Tier 1 Capital subject to limits, is below the amount of the share capital of the Bank with reference to the most recently published financial statements of ESFG or whenever ESFG is at risk of non-compliance with the Own Funds Requirements Regulations, at the consolidated level only, in the opinion of either ESFG or the Bank of Portugal taking into account the most recently available reports from the Bank of Portugal regarding the ESFG’s compliance with the Own Funds Requirements Regulations. The nominal amount so reduced will only be reinstated and recorded as a subordinated credit in certain specified circumstances. The potential reduction of the nominal amount will very likely negatively affect the market value of the Undated Deeply Subordinated Notes then outstanding and will increase the risk of capital loss under the investment in the Undated Deeply Subordinated Notes, either in whole or in part, considering that such reduced amount will only be reinstated in certain circumstances.

The Undated Deeply Subordinated Notes are undated securities and need not be redeemed by ESFG

The Undated Deeply Subordinated Notes are undated securities in respect of which there is no fixed redemption or maturity date. ESFG is under no obligation to redeem the Undated Deeply Subordinated Notes at any time (and any redemption has to comply with the provisions of Condition 6 of the Undated Deeply Subordinated Notes (“*Redemption and Purchase*”) and, in any event, be subject to the prior approval of the Bank of Portugal). ESFG may only redeem the Undated Deeply Subordinated Notes within the five years subsequent to their issue date if: (i) the Bank of Portugal is of the opinion that the relevant Tranche of Undated Deeply Subordinated Notes being redeemed is replaced with another Tranche which in the opinion of the Bank of Portugal satisfies at least the same requirements as the redeemed

Notes in terms of eligibility as Tier 1 capital of ESFG; (ii) the proceeds of the issue of the Undated Deeply Subordinated Notes cease to be eligible as Tier 1 Capital for ESFG; or (iii) certain tax events occur, in any case provided that the Bank of Portugal has previously approved such redemption. For further details see Condition 6 (“*Redemption and Purchase*”).

The holders of Undated Deeply Subordinated Notes have no right to require redemption of the Undated Deeply Subordinated Notes, except if a judgment is issued for the insolvent judicial liquidation of ESFG or if ESFG is wound up for any other reason. The holders of Undated Deeply Subordinated Notes have no right to file for the insolvent judicial liquidation of ESFG for reason of no payment of any amounts under the Undated Deeply Subordinated Notes.

Risks related to Notes generally

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

Modification, waivers and substitution

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

Change of law

The terms and conditions of the Notes are based on English law or Portuguese law, as appropriate, in effect as at the date of issue of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, Portuguese law or administrative practice after the date of issue of this Prospectus.

Notes where denominations involve integral multiples: definitive Notes

In relation to any Notes which have denominations consisting of a minimum Specified Denomination of €100,000 (or, where the Specified Currency is not euro, its equivalent in the Specified Currency), plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination of €100,000 (or its equivalent). In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination of €100,000 (or its equivalent) in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a nominal amount of Notes such that its holding amounts to the Specified Denomination of €100,000 (or its equivalent).

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

No limitation on pari passu or senior debt

There is no restriction on the amount of securities which ESFG may issue and which rank senior to, or *pari passu* with, the Dated Subordinated Notes. The issue of any such securities may reduce the amount recoverable by Noteholders in case of a winding-up of ESFG. The Dated Subordinated Notes are subordinated obligations of ESFG. Accordingly, in the

winding-up of ESFG, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders.

Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not

been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings referred to in this Prospectus and/or the Final Terms will be disclosed in the Final Terms.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing, and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

EU Savings Directive

Under European Council Directive 2003/48/EC (**EU Savings Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or for the benefit of, an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries), deducting tax at a rate of 35 per cent.

A number of non-EU countries including Switzerland, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through any non-EU country which has adopted similar measures and has opted for a withholding system, or through certain dependent or associated territories which have adopted similar measures and which have opted for a withholding system, and an amount of, or in respect of, tax were to be withheld from that payment, neither the relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts

with respect to any Notes as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

SELECTED FINANCIAL INFORMATION - ESFG

The selected financial information as of and for the years ended 31 December, 2009, 2010 and 2011 set out below is derived from, should be read in conjunction with, and is qualified in its entirety by reference to the audited consolidated financial statements of ESFG for the years ended 31 December, 2010 and 2011, which are incorporated by reference in this document as provided in “*Incorporation by Reference*”. ESFG’s audited consolidated financial statements as of, and for the years ended, 31 December, 2010 and 2011 have been audited by KPMG.

The selected financial information as of and for the three month periods ended 31 March 2011 and 2012 set out below is derived from, should be read in conjunction with, and is qualified in its entirety by reference to the press release published by ESFG on 24 May 2012 in respect of ESFG’s unaudited consolidated results for the three month period ended 31 March 2012, which is incorporated by reference in this document as provided in “*Incorporation by Reference*”.

ESFG’s audited consolidated financial statements and its unaudited consolidated financial statements have been prepared, for all years and three month periods presented, in conformity with IFRS as adopted by the European Union.

CONSOLIDATED INCOME STATEMENT:	For the years ended 31 December			For the three month periods ended 31 March		
	2009	2010 (as restated) ¹	2011	2011	2011 (as restated) ²	2012
	(in thousands of euro)					
Net interest income.....	1,228,585	1,189,041	1,244,286	281,515	281,515	308,401
Dividend income.....	89,885	194,738	169,208	4,395	4,395	36,917
Net fees and commissions.....	720,722	818,310	809,747	194,256	194,256	209,559
Commercial banking income.....	2,039,192	2,202,089	2,054,033	475,771	475,771	517,960
Capital markets results and other operating income.....	603,661	573,385	563,465	152,023	157,023	106,348
Insurance earned premiums net of reinsurance.....	309,289	325,168	352,112	83,746	83,746	85,124
Operating income.....	2,952,142	3,100,642	3,138,818	720,935	720,935	746,349
Operating expenses.....	(2,483,430)	(2,458,982)	(2,892,680)	597,948	586,597	685,820
Profit before tax (including gains from financial investments and share of profit of associates).....	701,750	725,653	208,804	127,485	138,836	64,645
Income tax.....	(121,077)	(51,494)	51,609	28,661	28,661	24,711
Non-controlling interest.....	(423,196)	(537,420)	(139,061)	85,160	93,120	37,958
Attributable to equity holders of the company.....	157,477	136,739	121,352	13,664	17,055	1,976

¹ Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

² Figures for the three months ended 31 March 2011 are restated as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the figures for the three months ended 31 March 2011 are adjusted for comparison purposes.

CONSOLIDATED BALANCE SHEET:

	As at 31 December			As at 31 March		
	2009	2010 (as restated) ¹	2011	2011	2011 (as restated) ²	2012
	(in thousands of euro)					
Total assets	85,316,987	86,508,128	84,019,504	84,098,685	83,464,581	85,162,241
Total liabilities	78,576,299	79,848,408	77,779,681	76,772,861	76,772,861	78,731,694
Total equity attributable to equity holders of the Company	1,551,298	1,338,294	1,266,800	1,523,695	1,322,979	1,333,091
Non-controlling interest	5,189,390	5,321,426	4,973,023	5,802,129	5,368,741	5,097,456
Total equity	6,740,688	6,659,720	6,239,823	7,325,824	6,691,720	6,430,547
Total equity and liabilities	85,316,987	86,508,128	84,019,504	84,098,685	83,464,581	85,162,241

¹ Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

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CONSOLIDATED FINANCIAL DATA - ESFG

The consolidated financial data as of and for the years ended 31 December, 2009, 2010 and 2011 set out below is derived from, should be read in conjunction with, and is qualified in its entirety by reference to the audited consolidated financial statements of ESFG for the years ended 31 December, 2010 and 2011, which are incorporated by reference in this document as provided in “*Incorporation by Reference*”. ESFG’s audited consolidated financial statements as of, and for the years ended, 31 December, 2010 and 2011 have been audited by KPMG.

The consolidated financial data as of and for the three month periods ended 31 March 2011 and 2012 set out below is derived from, should be read in conjunction with, and is qualified in its entirety by reference to the press release published by ESFG on 24 May 2012 in respect of ESFG’s unaudited consolidated results for the three month period ended 31 March 2012, which is incorporated by reference in this document as provided in “*Incorporation by Reference*”.

ESFG’s audited consolidated financial statements and its unaudited consolidated financial statements have been prepared, for all years and three month periods presented, in conformity with IFRS as adopted by the European Union.

CONSOLIDATED INCOME STATEMENT:	For the years ended 31 December			For the three month periods ended 31 March		
	2009	2010 (as restated) ¹	2011	2011	2011 (as restated) ²	2012
	(in thousands of euro)					
Interest and similar income	3,949,582	3,838,928	4,247,075	989,524	989,524	1,112,714
Interest expense and similar charges	2,720,997	2,649,887	3,002,789	708,009	708,009	804,313
Net interest income	1,228,585	1,189,041	1,244,286	281,515	281,515	308,401
Dividend income	89,885	194,738	169,208	4,395	4,395	36,917
Fee and commission income	830,289	940,092	943,904	229,688	229,688	256,270
Fee and commission expenses	(109,567)	(121,782)	(134,157)	(35,432)	(35,432)	(46,711)
Net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss	(44,761)	(197,574)	(193,322)	(16,134)	(16,134)	1,972
Net gains from available-for-sale financial assets	193,539	374,318	(64,476)	37,090	37,090	(59,179)
Net gains from foreign exchange differences	82,137	55,334	(27,714)	41,792	41,792	34,667
Net (losses) from the sale of other assets	(27,468)	(12,773)	(91,896)	(38,586)	(38,586)	(10,386)
Insurance earned premiums net of reinsurance	309,289	325,168	352,112	83,746	83,746	85,124
Other operating income	400,214	354,080	940,873	132,861	132,861	139,274
Operating income	2,952,142	3,100,642	3,138,818	720,935	720,935	746,349

	For the years ended 31 December			For the 3 month periods ended 31 March		
	2009	2010 (as restated) ¹	2011	2011	2011 (as restated) ²	2012
	(in thousands of euro)					
Staff costs	722,658	735,839	753,410	203,175	191,824	191,575
General and administrative expenses	459,113	495,425	490,642	120,869	120,869	116,974
Claims incurred net of reinsurance	220,643	238,404	289,273	73,922	73,922	68,076
Change in the technical reserves net of reinsurance.....	(7,682)	2,477	(53,531)	(13,707)	(13,707)	(3,605)
Insurance commissions.....	33,391	34,736	39,107	6,775	6,775	5,718
Depreciation and amortisation	123,842	139,512	151,540	35,650	35,650	37,693
Provisions net of reversals.....	53,005	55,099	10,668	2,900	2,990	(5,331)
Loans impairment net of reversals and recoveries.....	531,642	338,459	578,383	73,618	73,618	143,360
Impairment on other financial assets net of reversals.....	72,138	79,390	85,423	1,158	1,158	2,212
Impairment on other assets net of reversals	49,512	60,839	167,604	21,287	21,287	46,947
Other operating expenses	225,168	278,802	380,161	72,211	72,211	82,201
Operating expenses	2,483,430	2,458,982	2,892,680	597,948	58,597	685,820
Gains on disposal of investments in subsidiaries and associates.....	199,578	46,401	1,305	-	-	-
Share of profit of associates	33,460	37,592	(38,639)	4,498	4,498	4,116
Profit before income tax.....	701,750	725,653	208,804	127,485	128,836	64,645
Income tax						
Current tax.....	186,306	68,558	90,900	17,786	17,786	45,033
Deferred tax.....	(65,229)	(17,064)	(142,509)	10,875	10,875	(20,322)
	121,077	51,494	(51,609)	28,661	28,661	24,711
Profit for the year	580,673	674,159	260,413	98,824	110,175	39,934
Attributable to equity holders of the Company.....	157,477	136,739	121,352	13,664	17,055	1,976
Attributable to non-controlling interest.....	423,196	537,420	139,061	85,160	93,120	37,958
	580,673	674,159	260,413	98,824	110,175	39,934
Earnings per share of profit attributable to the equity holders of the Company						
Basic (in euro).....	1.60	1.33	2.51			
Diluted (in euro).....	1.60	1.23	2.51			

¹ Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

² Figures for the three months ended 31 March 2011 are restated as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the figures for the three months ended 31 March 2011 are adjusted for comparison purposes.

CONSOLIDATED BALANCE SHEET:

	As at 31 December			As at 31 March		
	2009	2010 (as restated) ¹	2011	2011	2011 (as restated) ²	2012
	(in thousands of euro)					
Assets						
Cash and deposits at central banks	2,224,331	976,515	1,130,515	1,275,315	1,275,315	1,566,091
Deposits with banks	793,844	879,561	998,345	1,028,777	1,028,777	938,909
Financial assets held for trading	4,490,699	3,951,786	3,466,900	3,407,892	3,407,892	3,913,177
Other financial assets at fair value through profit or loss	1,273,417	1,325,449	1,714,092	1,370,734	1,370,734	1,823,686
Available-for-sale financial assets	9,079,449	12,474,836	12,024,435	11,521,812	11,521,812	12,991,693
Loans and advances to banks	7,648,348	3,071,674	2,020,113	2,572,898	2,572,898	1,229,945
Loans and advances to customers	50,508,217	53,346,807	51,881,875	52,233,242	52,233,242	51,489,491
Held-to-maturity investments	2,535,309	2,453,465	1,751,193	2,372,250	2,372,250	1,408,547
Derivatives for risk management purposes	455,115	447,304	510,090	295,625	295,625	468,055
Non-current assets held for sale	407,585	574,550	1,646,683	604,876	604,876	1,826,674
Property and equipment	1,014,776	1,165,040	1,175,546	1,129,983	1,129,983	1,155,277
Investment properties	89,817	341,410	318,038	341,206	341,206	316,629
Intangible assets	373,851	557,837	549,196	552,319	552,319	544,387
Investments in associates	418,162	585,240	578,327	584,246	584,246	628,998
Technical reserves of reinsurance ceded	59,396	65,098	65,520	68,830	68,830	71,597
Current income tax assets	28,631	103,074	34,060	104,065	104,065	37,665
Deferred income tax assets	217,932	585,107	769,672	328,041	582,048	744,848
Other assets	3,698,108	3,603,375	3,384,904	4,306,574	3,418,463	4,006,572
Total assets	85,316,987	86,508,128	84,019,504	84,098,685	83,464,581	85,162,241
Liabilities						
Deposits from central banks	3,817,643	7,964,837	10,013,719	8,922,341	8,922,341	13,315,607
Financial liabilities held for trading	1,568,896	2,121,305	2,176,258	1,909,348	1,909,348	1,987,137
Deposits from banks	6,890,825	6,617,077	6,216,006	7,272,835	7,272,835	5,038,466
Due to customers	25,694,477	31,205,688	34,951,984	30,811,463	30,811,463	36,725,727
Debt securities issued	34,039,730	24,904,746	19,509,623	21,246,976	21,246,976	16,148,113
Derivatives for risk management purposes	253,148	228,944	238,633	217,140	217,140	181,541
Investment contracts	395,158	324,934	148,764	336,506	336,506	122,723
Non-current liabilities held for sale	21,609	5,411	140,950	5,411	5,411	140,950
Provisions	193,174	233,614	212,796	232,955	232,955	189,362
Technical reserves of direct insurance	994,752	1,157,019	1,089,915	1,146,612	1,146,612	1,099,921
Current income tax liabilities	162,508	57,765	80,761	62,471	62,471	84,976
Deferred income tax liabilities	83,193	131,289	120,891	114,768	114,768	106,364
Subordinated debt	3,048,825	2,689,697	1,322,579	2,731,249	2,731,249	1,313,007
Other liabilities	1,412,361	2,206,082	1,556,802	1,762,786	1,762,786	2,277,800
Total liabilities	78,576,299	79,848,408	77,779,681	76,772,861	76,772,861	78,731,694

	As at 31 December			As at 31 March		
	2009	2010 (as restated) ¹	2011	2011	2011 (as restated) ²	2012
	(in thousands of euro)					
Equity						
Share capital	778,549	778,549	105,035	778,549	778,549	105,035
Share premium	253,656	253,656	492,912	253,656	253,656	492,912
Preference shares	395,514	394,514	72,428	394,514	394,514	72,428
Other equity components.....	114,368	115,109	58,574	115,109	115,109	58,574
Fair value reserve.....	60,507	(39,766)	(165,624)	(50,308)	(50,308)	(105,130)
Capital reserve not available for distribution.....	-	-	700,970	-	-	700,970
Other reserves and retained earnings...	(208,773)	(300,507)	(118,847)	18,511	(185,596)	6,326
Profit for the year attributable to equity holders of the Company	157,477	136,739	121,352	13,664	17,055	1,976
Total equity attributable to equity holders of the Company	1,551,298	1,338,294	1,266,800	1,523,695	1,322,979	1,333,091
Non-controlling interest	5,189,390	5,321,426	4,973,023	5,802,129	5,368,741	5,097,456
Total equity	6,740,688	6,659,720	6,239,823	7,325,824	6,691,720	6,430,547
Total liabilities and equity	85,316,987	86,508,128	84,019,504	84,098,685	83,464,581	85,162,241

¹ Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

² Figures for the three months ended 31 March 2011 are restated as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the figures for the three months ended 31 March 2011 are adjusted for comparison purposes.

**CONSOLIDATED CASH FLOW
STATEMENT:**

**For the years ended
31 December**

	2009	2010	2011
	(in thousands of euro)		
<i>Cash flows from operating activities</i>			
Interest and similar income received.....	3,966,279	3,633,606	4,040,097
Interest expense and similar charges paid	(2,728,741)	(2,518,609)	(3,006,907)
Fees and commission received.....	843,286	946,792	950,017
Fees and commission paid.....	(152,292)	(174,323)	(186,229)
Insurance premiums	263,242	358,652	358,844
Claims paid.....	(270,389)	(254,787)	(304,685)
Medical services income received	243,293	243,470	302,664
Medical services expenses paid	(161,492)	(151,522)	(178,394)
Recoveries on loans previously written off	18,590	19,582	26,553
Contributions to pension fund.....	(36,609)	(59,740)	(94,379)
Cash payments to employees and suppliers.....	(1,283,165)	(1,080,251)	(1,247,215)
Net cash from operating profits before changes in operating assets and liabilities	702,002	962,870	660,366
Deposits with central banks	(1,029,455)	4,641,690	3,331,071
Financial assets at fair value through profit and loss	(87,150)	630,041	(42,216)
Loans and advances to banks.....	(4,110,536)	4,584,654	(201,975)
Deposits from banks.....	(1,160,208)	(302,098)	(431,063)
Loans and advances to customers	(2,249,697)	(3,102,713)	14,448
Due to customers.....	(629,176)	5,362,765	3,672,675
Derivatives for risk management purposes.....	(100,526)	(105,315)	(142,821)
Other operational assets and liabilities	483,625	(957,761)	(1,374,160)
Net cash from operating activities before income tax	(8,181,121)	11,714,133	5,486,325
Income taxes paid.....	(112,247)	(247,834)	30,624
Net cash from operating activities	(8,293,368)	11,466,299	5,516,949
<i>Cash flows from investing activities</i>			
Purchase of subsidiaries and associates.....	(127,835)	(286,535)	(185,671)
Sale of subsidiaries and associates.....	291,774	17,021	2,805
Dividends received.....	89,885	204,313	173,330
Purchase of financial assets available for sale	(34,376,776)	(42,186,780)	(48,220,730)
Sale of financial assets available for sale	33,530,220	39,542,376	48,532,710
Held to maturity investments.....	(378,349)	62,331	342,223
Insurance investment contracts.....	(8,545)	(69,835)	(178,295)
Purchase of tangible and intangible assets.....	(204,648)	(352,372)	(168,155)
Sale of tangible and intangible assets.....	5,482	27,400	39,319
Net cash from investing activities	(1,178,792)	(3,042,081)	337,536

	For the years ended 31 December		
	2009	2010	2011
	(in thousands of euro)		
<i>Cash flows from financing activities</i>			
Repurchase of subsidiaries preferences shares	–	–	(50,443)
Debt securities issued.....	17,719,514	11,978,023	11,587,411
Debt securities paid.....	(8,987,471)	(20,648,102)	(15,977,516)
Subordinated debt issued.....	653,620	84,279	19,746
Subordinated debt paid.....	(401,919)	(448,971)	(980,506)
Treasury stock.....	–	–	(997)
Interest on other equity instruments.....	–	–	(21,801)
Minority interest on capital increase of subsidiaries.....	982,910	–	–
Minority interest on capital decrease of subsidiaries.....	(2,449)	–	–
Dividend paid on ordinary shares.....	(216,054)	(113,963)	(126,098)
Dividend paid on preferred shares.....	(56,492)	(56,492)	(48,671)
Net cash from financing activities.....	9,691,659	(9,205,226)	(5,598,875)
Effect of exchange rate changes on cash and cash equivalents.....	(5,215)	47,020	32,891
Net increase in cash and cash equivalents.....	214,284	(733,988)	288,501
Cash and cash equivalents at the beginning of the year.....	2,155,818	2,370,102	1,702,427
Cash and cash equivalents at the end of the year.....	2,370,102	1,702,427	1,990,928
Cash acquired on change in scope of consolidation.....	–	66,313	–
	214,284	(733,988)	288,501
Cash and cash equivalents includes:			
Cash.....	220,001	308,868	281,080
Deposits with Central Banks.....	2,004,330	667,647	849,435
Mandatory deposits with Central Banks.....	(648,073)	(153,649)	(137,932)
Deposits with banks.....	793,844	879,561	998,345
Total.....	2,370,102	1,702,427	1,990,928

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus:

- (a) the auditors' report and audited consolidated annual financial statements of ESFG for the financial year ended 31 December 2011, including the information set out at the following pages in particular:

Consolidated Income Statement	Page F-2
Consolidated Statement of Comprehensive Income	Page F-3
Consolidated Balance Sheet	Page F-4
Statement of Changes in Consolidated Equity	Page F-5
Consolidated Cash Flow Statement	Page F-6
Accounting Principles and Notes.....	Pages F-7 to F-154
Auditors' Report.....	Page F-1

Any other information not listed above but contained in such document of ESFG is incorporated by reference for information purposes only;

- (b) the auditors' report and audited consolidated annual financial statements of ESFG for the financial year ended 31 December 2010, including the information set out at the following pages in particular:

Consolidated Income Statement	Page F-2
Consolidated Statement of Comprehensive Income	Page F-3
Consolidated Balance Sheet	Page F-4
Statement of Changes in Consolidated Equity	Page F-5
Consolidated Cash Flow Statement	Page F-6
Accounting Principles and Notes.....	Pages F-7 to F-150
Auditors' Report.....	Page F-1

Any other information not listed above but contained in such document of ESFG is incorporated by reference for information purposes only;

- (c) the unaudited consolidated results of ESFG for the three month period ended 31 March 2012, including the information set out at the following pages in particular:

Consolidated Income Statement	The second unnumbered page behind page 15
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Consolidated Balance Sheet The first unnumbered page behind page 15

Any other information not listed above but contained in such document of ESFG is incorporated by reference for information purposes only; and

- (d) the auditors' report and audited annual financial statements of ESFIL for the financial year ended 31 December 2011, including the information set out at the following pages in particular:

Profit and Loss Account..... Page 3
Balance Sheet Pages 1 and 2
Accounting Principles and Notes..... Pages 4 to 18
Auditors' Report..... Sixth and seventh pages behind front cover

Any other information not listed above but contained in such document of ESFIL is incorporated by reference for information purposes only;

- (e) the auditors' report and audited annual financial statements of ESFIL for the financial year ended 31 December 2010, including the information set out at the following pages in particular:

Profit and Loss Account..... Page 3
Balance Sheet Pages 1 and 2
Accounting Principles and Notes..... Pages 4 to 18
Auditors' Report..... Third and fourth pages behind front cover

Any other information not listed above but contained in such document of ESFIL is incorporated by reference for information purposes only; and

- (f) the "Terms and Conditions of the Notes (other than Undated Deeply Subordinated Notes)" section from the Prospectus dated 6 May 2011 published by ESFG and ESFIL.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the total capitalisation and indebtedness of ESFG and its consolidated subsidiaries as at 31 December 2011 on a consolidated basis and as adjusted to reflect the issuance of the New Shares. To the best of ESFG's knowledge, there has been no material change in the capitalisation and indebtedness of ESFG and its consolidated subsidiaries on a consolidated basis since 31 December 2011, save that following the ECB's long-term refinancing operation of 29 February 2012, BES' total amount outstanding of long-term borrowings with the ECB was EUR 10.2 billion (from EUR 8.8 billion at 31 December 2011):

	31 December 2011	
	(EUR millions)	
	(actual)	(adjusted)
Debt Securities Issued		
Guaranteed.....	6,957.7	6,957.7
Secured.....	3,735.6	3,735.6
Unsecured.....	8,816.3	8,816.3
Total debt securities	19,509.6	19,509.6
Subordinated Debt		
Guaranteed.....	155.0	155.0
Secured.....	-	-
Unsecured.....	1,167.6	1,167.6
Total subordinated debt	1,322.6	1,322.6
Equity Attributable to Equity Holders of the Company		
Share capital.....	105.0	207.0
Share premium.....	492.9	886.9
Preference shares.....	72.4	72.4
Capital reserve not available for distribution.....	701.0	701.0
Other equity components.....	58.6	58.6
Fair value reserve.....	(165.6)	(165.6)
Retained earnings.....	2.5	2.5
Total Shareholders' Equity	1,266.8	1,762.8
Total	22,099.0	22,595.0

GENERAL DESCRIPTION OF THE EMTN PROGRAMME

Under the EMTN Programme, each Issuer may from time to time issue Notes denominated in any currency agreed between such Issuer and the relevant Dealer(s) and having maturities of one month or longer (or such other minimum or maximum maturity or no maturity as may be allowed or required from time to time by the Bank of Portugal or other relevant central bank (or equivalent body (however called)) or any laws or regulations applicable to the relevant currency). A summary of the EMTN Programme appears on pages 8 to 24 which summarises the types of Notes that may be issued under the EMTN Programme by each Issuer. The applicable terms of any Notes will be agreed between the relevant Issuer and the relevant Dealer(s) prior to the issue of the Notes and will be set out either in the “*Terms and Conditions of the Notes (other than Undated Deeply Subordinated Notes)*” or, in the case of Undated Deeply Subordinated Notes which may only be issued by ESFG, the “*Terms and Conditions of the Undated Deeply Subordinated Notes*”, in each case attached to, incorporated by reference into, or endorsed on, the Notes as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes as more fully described under “*Form of the Notes*” below.

The minimum denomination of each Note issued by ESFG which is admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive (as defined below) will be €1,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the issue date of such Notes).

The minimum denomination of each Note issued by ESFIL which is admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive (as defined below) will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the issue date of such Notes).

FORM OF THE NOTES

General

Words and expressions defined in “*Terms and Conditions of the Notes*” below shall have the same meanings in this “*Form of the Notes*”. Notes constituting a separate identifiable tranche (within the meaning of Regulation S under the Securities Act), unless specified otherwise in the applicable Final Terms, will initially be represented by a Temporary Global Note which will:

- (i) if the Global Notes are intended to be issued in new global note (NGN) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and
- (ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

Each Temporary Global Note will be exchangeable as described therein either for a Permanent Global Note or Definitive Notes (as indicated in the applicable Final Terms) not earlier than 40 days after the later of (A) the completion of the distribution of such identifiable Tranche of Notes as determined by the Agent and (B) the settlement date for such Tranche (the **Exchange Date**; provided, however, that the Issuer may, in its sole discretion, extend the Exchange Date for such reasonable period of time as the Issuer may deem necessary in order to ensure that the issuance of such identifiable Tranche of Notes is exempt from registration under the Securities Act by virtue of Regulation S thereunder) upon receipt by the Issuer or the Agent from Clearstream, Luxembourg or Euroclear of the requisite certifications as described under “*Certifications*” below.

Each Permanent Global Note will, if specified in the applicable Final Terms, be exchangeable in whole, but not in part, for Definitive Notes with, where applicable, Receipts, Coupons and Talons attached: (i) at the request of the relevant Issuer; (ii) upon the Noteholders instructing Euroclear or Clearstream, Luxembourg or any other agreed clearing system in which such Permanent Global Note is being held to give at least 60 days’ written notice to the Agent, subject to the payment of costs in connection with the printing and distribution of the Definitive Notes, if specified in the applicable Final Terms; and/or (iii) (free of charge) upon the occurrence of an Exchange Event (as defined below).

For these purposes **Exchange Event** means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing; (ii) the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg, or any other agreed clearing system in which such Permanent Global Note is being held, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, as a result, Euroclear and Clearstream, Luxembourg or such other agreed clearing system in which such Permanent Global Note is being held are no longer willing or able to discharge properly their responsibilities with respect to such Notes and the Agent and the relevant Issuer are unable to locate a qualified successor; or (iii) the relevant Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg and/or any other agreed

clearing system in which such Permanent Global Note is being held (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice to the Agent.

Interest, Principal and Other Payments Prior to Exchange Date

In the case of a Temporary Global Note that provides for payment of any interest, principal or other amounts prior to the Exchange Date, a member organisation appearing in the records of Euroclear or Clearstream, Luxembourg as entitled to a portion of the nominal amount of such Temporary Global Note (a **Member Organisation**) must provide an Owner Tax Certification (as defined below) to Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg must provide to the Issuer and the Agent a certification in the form attached as Annex A to the Temporary Global Note (a **Depository Tax Certification**), in each case, prior to the payment of interest or, if applicable, principal. A Depository Tax Certification may be provided in electronic form only if it satisfies the requirements in the Treasury Regulations Section 1.163-5(c)(2)(i)(D)(3)(ii). Until an Owner Tax Certification is provided by the Member Organisation to Euroclear or Clearstream, Luxembourg, and the Issuer or the Agent receives from Euroclear or Clearstream, Luxembourg a Depository Tax Certification, such Member Organisation will not be entitled to receive any interest or, if applicable, principal with respect to its interest in the Temporary Global Note or to exchange its interest therein for a portion of the Permanent Global Note or for Definitive Notes. Prior to the exchange of the Member Organisation's interest in the Temporary Global Note for a portion of the Permanent Global Note or for Definitive Notes, a Member Organisation must also provide the Owner Securities Certification (as defined below), and Euroclear or Clearstream, Luxembourg must provide to the Issuer or the Agent a certification in the form set out in such Temporary Global Note (a **Depository Securities Certification**).

Exchange Date Prior to Interest, Principal and Other Payments

In the case of a Temporary Global Note that does not provide for payment of any interest, principal or other amounts prior to the Exchange Date, the Member Organisation must provide to Euroclear or Clearstream, Luxembourg an Owner Tax Certification and an Owner Securities Certification (which may be combined in one certification form), and Euroclear or Clearstream, Luxembourg must provide to the Issuer or the Agent a Depository Tax Certification and a Depository Securities Certification (which may be combined in one certification form). Until the requisite certifications are provided by the Member Organisation to Euroclear or Clearstream, Luxembourg, and the Issuer or the Agent receives from Euroclear or Clearstream, Luxembourg the requisite certifications to the Issuer, such Member Organisation shall not be entitled to receive any interest or, if applicable, principal with respect to its interest in the Temporary Global Note or to exchange its interest in the Temporary Global Note for a portion of the Permanent Global Note or for Definitive Notes.

Certifications

As described above, no interest or, if applicable, principal will be paid on any Temporary Global Note and no exchange of a Temporary Global Note for a portion of the Permanent Global Note or for Definitive Notes may occur until the beneficial owner, as the person entitled to receive such interest or, if applicable, principal or a portion of the Permanent Global Note or Definitive Notes, furnishes written certification (the **Owner Tax Certification**), in the form attached as Annex B to the Temporary Global Note to the effect that such person (i) is not a United States person (as defined under the United States Internal

Revenue Code of 1986, as amended (the **Code**) and the Treasury Regulations thereunder), (ii) is a foreign branch of a United States financial institution purchasing for its own account or for resale, or is a United States person who acquired the Note through such financial institution and who holds the Note through such financial institution on the date of the certificate, provided in either case that such financial institution provides a certificate to the Issuer or the distributor selling the Note to it stating that it agrees to comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Code and the United States Treasury Regulations thereunder, or (iii) is a financial institution holding for purposes of resale during the restricted period (as defined in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)). A financial institution described in clause (iii) of the preceding sentence (whether or not also described in clause (i) or (ii)) must certify that it has not acquired the Note for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions. An Owner Tax Certification may be provided in electronic form only if it satisfies the requirements in the Treasury Regulations Section 1.163-5(c)(2)(i)(D)(3)(ii).

Notwithstanding the foregoing, an Owner Tax Certification or a Depository Tax Certification is not required with respect to Notes having a maturity of 365 days or less.

As described above, prior to the exchange of the Member Organisation's interest in the Temporary Global Note for a portion of the Permanent Global Note or for Definitive Notes, the Member Organisation must provide a written certification that the beneficial owner is not a U.S. person or that the beneficial owner acquired its interest in a transaction that did not require registration under the Securities Act (an **Owner Securities Certification**). For purposes of the Owner Securities Certification, "**U.S. person**" shall have the meaning set forth in Section 902(k) of Regulation S.

Payments of principal and interest (if any) on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg to or to the order of the holder thereof (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) outside the United States and its possessions without any requirement for certification. Unless otherwise specified in the applicable Final Terms, a Permanent Global Note will be exchangeable in whole or (provided Euroclear and Clearstream, Luxembourg will regard all the Notes of the relevant Series as fungible) in part for Definitive Notes with, where applicable, receipts, interest coupons and talons attached upon not less than 60 days' written notice (or, in the case of Notes with a maturity of less than 60 days, within a reasonable period of time) to the Agent from Euroclear and/or Clearstream, Luxembourg (which shall be provided at the request of any beneficial owner of an interest in the Permanent Global Note) or, in the case of a Permanent Global Note held otherwise than on behalf of Euroclear and/or Clearstream, Luxembourg, from the holder thereof (upon the request of any beneficial owner if such person is different from the holder). Permanent Global Notes and Definitive Notes will be issued pursuant to the Agency Agreement. At present, neither Euroclear nor Clearstream, Luxembourg regard Notes in global form as fungible with Notes in definitive form. As long as this is the case, it is understood that any holder of a beneficial interest in the Permanent Global Note can cause the exchange of all interests in the Permanent Global Note for Definitive Notes.

In the event that a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg (or any part thereof) has become due and repayable in accordance with the Conditions or that the Maturity Date has occurred and payment in full of the amount due has not been made to the bearer in accordance with the terms thereof and the Conditions, then the Global Note will become void. At the same time accountholders with Euroclear and/or Clearstream, Luxembourg having such Notes (other than Definitive Notes) credited to their accounts will

become entitled to proceed directly against the Issuer, on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg, under the terms of Clause 28 of the Agency Agreement (as defined under “*Terms and Conditions of the Notes*” below).

Security Codes

Pursuant to the Agency Agreement, the Agent (as so defined) shall, where Notes are held by or on behalf of Euroclear and/or Clearstream, Luxembourg, arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned security code numbers by Euroclear and/or Clearstream, Luxembourg which are different from the security code numbers assigned to Notes of any other Tranche of the same Series until the Exchange Date with respect to the Notes of such Tranche as certified by the Agent to the relevant Dealer.

Legends

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts, interest coupons and talons relating to such Notes attached thereto:

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

The sections of the U.S. Internal Revenue Code referred to above provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

Form of Final Terms

The Final Terms applicable to each Tranche of Notes will be in the form as set out on page 130 and will contain such information as is applicable in respect of such Notes (all references to numbered Conditions being to the relevant Conditions in the Terms and Conditions of the relevant Notes).

**TERMS AND CONDITIONS OF THE NOTES
(OTHER THAN UNDATED DEEPLY SUBORDINATED NOTES)**

The following are the terms and conditions (the “Terms and Conditions”) of the Notes to be issued by an Issuer which will be incorporated by reference into each Global Note and which will be endorsed upon each Definitive Note (if any). The applicable Final Terms in relation to any Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes.

This Note is one of a series of Notes issued with the benefit of the Agency Agreement (defined below). References in these Terms and Conditions to the “**Issuer**” shall be references to the party specified as such in the applicable Final Terms (as defined below). References herein to the “**Notes**” shall be references to the Notes of this Series (as defined below) and shall mean (i) in relation to any Notes represented by a temporary global note in bearer form (a **Temporary Global Note**) or a permanent global note in bearer form (a **Permanent Global Note**) (and **Global Note** means a Temporary Global Note or a Permanent Global Note), units of the lowest Specified Denomination in the Specified Currency of issue, (ii) individual definitive Notes in bearer form (**Definitive Notes**) issued in exchange (or part exchange) for a Global Note, and (iii) any Global Note. The Notes, the Receipts and the Coupons (each as defined below) have the benefit of an Agency Agreement dated 30 May 2012, as further amended and/or supplemented and/or restated from time to time, (the **Agency Agreement**) made between, inter alia, the Issuer, Espírito Santo Financial Group S.A. (**ESFG**) as guarantor (the **Guarantor**) in relation to Notes issued by ESFIL - Espírito Santo Financière S.A. (**ESFIL**), Citibank, N.A., London Branch as issuing and principal paying agent and, if so specified in the applicable Final Terms, as calculation agent (the **Agent**, which expression shall include any successor agent or any other calculation agent specified in the applicable Final Terms and the **Paying Agent**, which expression shall include any additional or successor paying agents).

Interest bearing Definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue.

Any reference herein to “**Noteholders**” shall mean the holders of the Notes, and shall, in relation to any Notes represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Guarantor (if applicable) and the Agent and specified in the applicable Final Terms.

The Final Terms applicable to this Note are attached hereto or endorsed hereon and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References

herein to the “**applicable Final Terms**” are to the Final Terms attached hereto or endorsed hereon.

As used herein, “**Series**” means each original issue of Notes together with any further issues expressed to form a single series with the original issue and the terms of which (save for the Issue Date, the amount and the date of the first payment of interest thereon and/or the Issue Price (as indicated in the applicable Final Terms)) are identical (including Maturity Date, Interest Basis, Redemption/Payment Basis and Interest Payment Dates (if any) and whether or not the Notes are admitted to trading). As used herein, “**Tranche**” means all Notes of the same Series with the same Issue Date and Interest Commencement Date (if applicable).

Copies of the Agency Agreement (and if the Notes are admitted to trading on a regulated market in the European Economic Area or offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive 2003/71/EC as amended) the Final Terms relating to such Notes are available at the specified offices of the Agent. Copies of such Final Terms are available for viewing on the ESFG website at www.esfg.com. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Final Terms, which are binding on them.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated.

A Global Note may be exchanged in whole or, in certain circumstances, in part for Definitive Notes upon request by any holder of an interest therein in accordance with these Terms and Conditions, the provisions of the relevant Global Note and as specified in the applicable Final Terms.

1. Form, Denomination, Title and Transfer

The Notes are in bearer form and, except in the case of Global Notes, serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Final Terms.

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

Each Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Each Note may be an Index Linked Redemption Note, a Dual Currency Note, a Partly Paid Note or an Instalment Note or a combination of any of the foregoing or any other type of Note, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Notes, except for Global Notes, are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The holder of each Coupon or Receipt, whether or not such Coupon or Receipt is attached to the Note, in his capacity as such, shall be subject to and bound by all the provisions contained in the relevant Note. Subject as set out below, the Issuer, the Guarantor (if applicable) and any

Paying Agent may deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice to the contrary, including any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes are represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor (if applicable), and any Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantor (if applicable) and any Paying Agent as the holder of such Notes in accordance with and subject to the terms of the relevant Global Note (and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

2. Status of the Notes and Guarantee

(a) Status of Senior Notes

The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves and equally with all other unsecured and unsubordinated obligations of the Issuer from time to time outstanding (other than obligations mandatorily preferred by law).

(b) Status of the Guarantee

If the Issuer of the Senior Notes is ESFIL, the due payment of all sums expressed to be payable by ESFIL under the Senior Notes, and the Receipts and Coupons in respect of each Senior Note, has in the Agency Agreement been unconditionally and irrevocably guaranteed by the Guarantor (the **Guarantee**) and the Agency Agreement has been deposited for the benefit of the holders of such Senior Notes with the Agent.

The payment obligations of the Guarantor under the Guarantee are direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Guarantor and rank *pari passu* with all present and future unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Guarantor, (other than obligations mandatorily preferred by law).

(c) Status of Dated Subordinated Notes

The Dated Subordinated Notes are direct, unsecured and subordinated obligations of ESFG and rank and will rank *pari passu* and rateably without any preference among themselves.

The payment obligations of ESFG under the Dated Subordinated Notes rank and will rank equally with all other Senior Subordinated Obligations (as defined below).

In the event of the liquidation of ESFG, the rights of the holders of the Dated Subordinated Notes shall rank ahead of:

- (i) those persons whose claims are in respect of any class of share capital of ESFG; and
- (ii) creditors whose claims are in respect of any obligations of ESFG that rank or are expressed to rank (whether only in the winding up of ESFG or otherwise) junior to Senior Subordinated Obligations,

but shall be subordinated to the claims of all Senior Creditors (as defined below).

In this Condition 2(c):

Senior Creditors means all unsubordinated creditors of ESFG; and

Senior Subordinated Obligations means all indebtedness and monetary obligations of ESFG present and future that rank or are expressed to rank junior in right of payment (whether only in the event of the winding up of ESFG or otherwise) to the claims of Senior Creditors but that are not subordinated so as to rank in point of subordination junior to any other obligations of ESFG.

The Dated Subordinated Notes will be the top-ranking form of subordinated debt of ESFG. It is the intention of ESFG to have the Dated Subordinated Notes qualify towards the ESFG Group's regulatory capital requirement as lower tier two regulatory capital. ESFG may issue other series of subordinated debt which rank pari passu with or junior to the Dated Subordinated Notes. It is ESFG's intention that other series of notes which are also intended to qualify as lower tier two regulatory capital will be issued so as to rank pari passu with the Dated Subordinated Notes.

Subject to applicable law, no holder of a Dated Subordinated Note may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by ESFG arising under or in connection with the Dated Subordinated Notes and each Noteholder, Receiptholder or Couponholder shall, by virtue of being the holder of any Dated Subordinated Note, Receipt or Coupon, be deemed to have waived all such rights of such set-off, counter-claim or retention.

3. Negative Pledge

So long as any of the Senior Notes remain outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor (if applicable) shall create or permit to be outstanding any mortgage, charge, lien, pledge or other similar encumbrance or security interest upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Indebtedness (as defined below) or any guarantee or indemnity given in respect of any Indebtedness, without, in the case of the creation of an encumbrance or security interest, at the same time and, in any other case, promptly according to the holders of the Senior Notes an equal and rateable interest in the same or providing to the holders of the Senior Notes such other security as shall be approved by an Extraordinary Resolution of the holders of the Senior Notes.

In this Condition 3:

Indebtedness means any borrowings having an original maturity of more than one year in the form of or represented by bonds, notes, debentures or other securities which with the consent of the Issuer or the Guarantor (if applicable), are, or are intended to be, listed or traded on any stock exchange, over-the-counter or other organised market for securities (whether or not initially distributed by way of private placing); and

Extraordinary Resolution means a resolution passed at a meeting of the holders of the Senior Notes duly convened and held in accordance with the Agency Agreement by a majority of at least 75 per cent. of the votes cast.

4. Interest

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date specified in the applicable Final Terms (or the Issue Date, if no Interest Commencement Date is separately specified) to (but excluding) the Maturity Date specified in the applicable Final Terms at the rate(s) per annum equal to the Rate(s) of Interest so specified. Interest will be payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date so specified if that does not fall on an Interest Payment Date. For so long as any of the Fixed Rate Notes is represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures.

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

As used in these Terms and Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date or the Issue Date, as the case may be) to (but excluding) the next (or first) Interest Payment Date or Maturity Date.

Unless specified otherwise in the applicable Final Terms, the “**Following Business Day Convention**” will apply to the payment of all Fixed Rate Notes, meaning that if the Interest Payment Date or Maturity Date would otherwise fall on a day which is not a Business Day (as defined in Condition 4(b)(i) below), the related payment of principal or interest will be made on the next succeeding Business Day as if made on the date such payment was due. If the “**Modified Following Business Day Convention**” is specified in the applicable Final Terms for any Fixed Rate Note, it shall mean that if the Interest Payment Date or Maturity Date would otherwise fall on a day which is not a Business Day (as defined in Condition 4(b)(i) below), the related payment of principal or interest will be made on the next succeeding Business Day as if made on the date such payment was due unless it would thereby fall into the next calendar month in which event the full amount of payment shall be made on the immediately preceding Business Day as if made on the day such payment was due. Unless specified otherwise in the applicable Final Terms, the amount of interest due

shall not be changed if payment is made on a day other than an Interest Payment Date or the Maturity Date as a result of the application of a Business Day Convention specified above or other Business Day Convention specified in the applicable Final Terms.

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

- (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

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

In these Terms and Conditions, “**Fixed Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a) (unless specified otherwise in the applicable Final Terms):

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Final Terms:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date or Issue Date, as applicable) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined below) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; or
 - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would

occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and

- (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and
- (ii) if “**30/360**” is specified in the applicable Final Terms, the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date or Issue Date, as applicable) to (but excluding) the next scheduled Interest Payment Date or the Maturity Date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360 and, in the case of an incomplete month, the number of days elapsed; and

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

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

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date specified in the applicable Final Terms (or the Issue Date, if no Interest Commencement Date is separately specified) and, unless specified otherwise in the applicable Final Terms, at the rate equal to the Rate of Interest payable in arrear on the Maturity Date and on either:

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

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

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

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

In these Terms and Conditions, “**Business Day**” means (unless otherwise stated in the applicable Final Terms) a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in each place as is specified in the applicable Final Terms (each an **Additional Business Centre**); and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits)

in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto (the **TARGET2 System**) is open.

Interest will be paid subject to and in accordance with the provisions of Condition 5.

(ii) Rate of Interest

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

(iii) ISDA Determination

Unless specified otherwise in the applicable Final Terms, where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any) as determined by the Agent (or such other Calculation Agent specified in the applicable Final Terms). For the purposes of this sub-paragraph (iii) unless specified otherwise in the applicable Final Terms, “ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any)” for an Interest Period means a rate equal to the Floating Rate that would be determined under an interest rate swap transaction under the terms of an agreement (regardless of any event of default or termination event thereunder) incorporating the ISDA Definitions with the holder of the relevant Note under which:

- (A) the manner in which the Rate of Interest is to be determined is the “Floating Rate Option” as specified in the applicable Final Terms;
- (B) the Issuer is the “Floating Rate Payer”;
- (C) the Agent or other person specified in the applicable Final Terms is the “Calculation Agent”;
- (D) the Interest Commencement Date is the “Effective Date”;
- (E) the Aggregate Nominal Amount of Notes is the “Notional Amount”;
- (F) the relevant Interest Period is the “Designated Maturity” as specified in the applicable Final Terms;
- (G) the Interest Payment Dates are the “Floating Rate Payer Payment Dates”;
- (H) the Margin is the “Spread”;

- (I) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**) or on the Euro-zone inter-bank offered rate (**EURIBOR**) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms; and
- (J) all other terms are as specified in the applicable Final Terms.

When this sub-paragraph (iii) applies, unless specified otherwise in the applicable Final Terms with respect to each relevant Interest Payment Date:

- (A) the amount of interest determined for such Interest Payment Date shall be the Interest Amount for the relevant Interest Period for the purposes of these Terms and Conditions as though calculated under sub-paragraph (vi) below; and
- (B) (i) “Floating Rate”, “Floating Rate Option”, “Floating Rate Payer”, “Effective Date”, “Notional Amount”, “Floating Rate Payer Payment Dates”, “Spread”, “Calculation Agent”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions; and (ii) “Euro-zone” means the region comprised of the Member States of the European Union that adopt the single currency in accordance with the Treaty on the Functioning of the European Union, as amended).

(iv) Screen Rate Determination for Floating Rate Notes

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

- (A) the quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum), for the Reference Rate (as specified in the applicable Final Terms) for deposits in the Specified Currency for that Interest Period which appears or appear, as the case may be, on the Relevant Screen Page (as specified in the applicable Final Terms) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date (as defined below) in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent (or such other Calculation Agent specified in the applicable Final Terms). Unless specified otherwise in the applicable Final Terms, if five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent (or such other Calculation Agent specified in the applicable Final Terms) for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(v) Minimum Rate of Interest and/or Maximum Rate of Interest

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

(vi) Determination of Rate of Interest and Calculation of Interest Amounts

The Agent (or if the Agent is not the Calculation Agent, the Calculation Agent specified in the applicable Final Terms) will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. The Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent (or if the Agent is not the Calculation Agent, the Calculation Agent specified in the applicable Final Terms) will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction (as specified in the applicable Final Terms) and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention or as specified in the applicable Final Terms. Without prejudice to sub-paragraph (viii) below, the determination of the Rate of Interest and calculation of each Interest Amount by the Agent (or

the Calculation Agent specified in the applicable Final Terms if the Agent is not the Calculation Agent) shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on all parties. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, unless specified otherwise in the applicable Final Terms, in respect of the calculation of an amount of interest for any Interest Period:

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(vii) Notification of Rate of Interest and Interest Amount

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Guarantor (if applicable), the other Paying Agents and any stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being admitted to trading and listed and will cause notice thereof to be published or given in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day after their determination. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without publication as aforesaid or prior notice in the event of an extension or shortening of the Interest Period in accordance with the provisions hereof. Any such amendment or alternative arrangements will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being admitted to trading or listing. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(viii) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or other Calculation Agent, shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor (if applicable), the Agent, the Calculation Agent (if applicable), any other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor (if applicable), the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) ***Index Linked Interest Notes, Index Linked Redemption Notes and Dual Currency Notes***

In the case of Index Linked Interest Notes, Index Linked Redemption Notes or Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to

an index and/or a formula or, as the case may be, an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note to be redeemed) will cease to bear interest (if any) from the date scheduled for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue at the rate of interest then applicable or at such other rate as may be specified in the applicable Final Terms until the earlier of (i) the day on which, upon due presentation or surrender of such Note (if required), the relevant payment is made; and (ii) the day on which the Agent having received the funds required to make such payment, notice is given to the Noteholders in accordance with Condition 14 of receipt of all sums due in respect thereof up to that date.

5. *Payments*

(a) *Method of Payment*

Subject as provided below:

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

Payments will be subject in all cases, but without prejudice to the provisions of Condition 7, to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto.

(b) *Presentation of Notes, Receipts and Coupons*

Payments of principal in respect of Definitive Notes will (subject as provided below) be made in the Specified Currency in the manner provided in paragraph (a) above only against surrender of such Definitive Notes, and payments of interest in respect of Definitive Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)). Subject to any applicable laws and regulations, such payments made by transfer will be made in immediately available funds to an account maintained by the payee with a bank located outside the United States. No payment in respect of any Definitive Note or Coupon will be made upon presentation of such Definitive Note or Coupon at any office or agency of the Issuer, the Guarantor (if applicable) or any Paying Agent in the United States, nor will any such payment be made by transfer to an account in the United States.

Payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made against presentation and surrender of the relevant Receipt. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Note to which it appertains. Receipts presented without the Definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Index Linked Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the aggregate amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Unless otherwise specified in the applicable Final Terms, each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon the date on which any Floating Rate Note, Dual Currency Note or Index Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

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

(c) *Payments in respect of Global Notes*

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

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantor (if applicable) will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor (if applicable) to, or to the order of, the holder of such Global Note. No person other than the holder of such Global Note shall have any claim against the Issuer or, as the case may be, the Guarantor (if applicable) in respect of any payments due on that Global Note.

(d) *Amounts payable in U.S. dollars*

Notwithstanding the foregoing provisions of this Condition, U.S. dollar payments of principal and/or interest in respect of the Notes denominated in U.S. dollars will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:

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

(e) *Payment Day*

Unless specified otherwise in the applicable Final Terms, if the due date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, unless otherwise specified in the applicable Final Terms, “**Payment Day**” means any day which (subject to Condition 8) is both:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation (if presentation is required); and
 - (B) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(f) *Interpretation of Principal and Interest*

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

- (i) any additional amounts which may be payable under Condition 7;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts; and
- (vi) any premium and any other amounts which may be payable by the Issuer or (where applicable) the Guarantor under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable under Condition 7.

6. Redemption and Purchase

(a) At Maturity

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

(b) Redemption for Tax Reasons

(i) The Notes may be redeemed at the option of the Issuer (after obtaining the consent of the Bank of Portugal wherever it is required in the case of Dated Subordinated Notes) in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes or Index Linked Interest Notes) or on any Interest Payment Date (in the case of Floating Rate Notes or Index Linked Interest Notes), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (A) on the occasion of the next payment due under the Notes or (if applicable) the Guarantee, the Issuer or (if applicable) the Guarantor, as the case may be, will be or is expected to become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of Luxembourg or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment is expected to become effective on or after the Issue Date of the first Tranche of the Notes; and
- (B) such obligation cannot be avoided by the Issuer or (where applicable) the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or (where applicable) the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Agent a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment. The Agent shall be entitled to accept any such certificate and opinion delivered to it as sufficient evidence of the satisfaction of such conditions precedent in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

(ii) Each Note redeemed pursuant to this Condition 6(b) will be redeemed at its Early Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) ***Final Terms***

The Final Terms applicable to the Notes indicates either:

- (i) that the Notes cannot be redeemed prior to their Maturity Date (except as otherwise provided in paragraph (b) above and in Condition 9); or
- (ii) that such Notes will be redeemable at the option of the Issuer and/or the holders of the Notes prior to such Maturity Date in accordance with the provisions of paragraphs (d) and/or (e) below on the date or dates and at the amount or amounts indicated in the applicable Final Terms.

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

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having (unless otherwise specified in the applicable Final Terms and after obtaining the consent of the Bank of Portugal whenever required in the case of Dated Subordinated Notes) given not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s). Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not greater than the Maximum Redemption Amount, both as indicated in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected (i) individually by lot, in the case of Redeemed Notes represented by Definitive Notes, and (ii) in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 60 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by Definitive Notes, a list of the serial numbers of such Redeemed Notes will be published or notified in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption, or such other period as is specified in the applicable Final Terms. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (d) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

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

If Investor Put is specified in the applicable Final Terms (provided that Investor Put may not be specified if this is a Dated Subordinated Note), upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 30 nor more than 60 days' notice or such other period of notice as is specified in the applicable Final Terms (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It

may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of the Note the holder of the Note must, if the Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by the Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Notice, be held to its order or under its control. If the Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of the Note the holder of the Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository or, as the case may be, the common safekeeper for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if the Note is represented by a Global Note the terms of which require its presentation for recording changes to its nominal amount, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

(f) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 9, each Note will be redeemed at its Early Redemption Amount calculated as follows:

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

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

where:

“RP” means the Reference Price; and

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

“y” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

(g) *Instalments*

If the Notes are repayable in instalments, they will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (f) above.

(h) *Partly Paid Notes*

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise in accordance with the provisions of this Condition 6 and the applicable Final Terms.

(i) *Purchases*

The Issuer, the Guarantor (if applicable) or any of their respective subsidiaries may (after obtaining the consent of the Bank of Portugal whenever it is required in the case of Dated Subordinated Notes) at any time purchase Notes (provided that, in the case of Definitive Notes, all unmatured Receipts and Coupons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Guarantor (if applicable) or the relevant subsidiary, surrendered to any Paying Agent for cancellation.

(j) *Cancellation*

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

(k) *Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (d) or (e) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which the Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

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

7. Taxation

All payments of principal and interest in respect of the Notes by the Issuer or the Guarantor (if applicable and if the Guarantor is obliged to make payments under the Guarantee) will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In the event that the Issuer, the Guarantor or any agent of the Issuer or the Guarantor is required by law to make such withholding or deduction, the Issuer or the Guarantor will pay to the extent permitted by law such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) where the withholding or deduction in question is required by virtue of the Noteholder, Receiptholder or Couponholder having some connection with Luxembourg other than the mere holding of such Note, Receipt or Coupon; and/or
- (ii) where presentation of the Note, Receipt or Coupon is required, presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day, assuming that day to have been a Payment Day (as defined in Condition 5); and/or
- (iii) where the Noteholder, Receiptholder or Couponholder of which would not be liable for such taxes or duties in respect of such Note, Receipt or Coupon by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; and/or
- (iv) where such withholding or deduction is imposed on a payment to or for an individual or a residual entity within the meaning of the EU Savings Directive 2003/48/EC and is required to be made pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, such Directive or law; and/or
- (v) where the Noteholder, Receiptholder or Couponholder of which would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

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

8. Prescription

The Global Notes, Definitive Notes, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 8 or Condition 5(b) or any Talon which itself would be void pursuant to Condition 5(b).

9. Events of Default

(a) Senior Notes

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

- (i) default is made in the payment of any principal or interest due in respect of the Senior Notes or any of them and such default continues, in the case of principal, for a period of seven days or, in the case of interest, for a period of 14 days; or
- (ii) the Issuer or the Guarantor (if applicable) fails to perform or observe any of its other obligations in respect of the Senior Notes which default is incapable of remedy or is not remedied within and the period of 30 days after notice thereof has been given to the Issuer or, as the case may be, the Guarantor (if applicable) or the Agent requiring the same to be remedied; or
- (iii) the repayment of any indebtedness for borrowed money owing by the Issuer or by the Guarantor (if applicable) or the Principal Subsidiary is accelerated by reason of default and such acceleration has not been rescinded or annulled, or the Issuer or the Guarantor (if applicable) or the Principal Subsidiary defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any indebtedness for borrowed money or in the honouring of any guarantee or indemnity in respect of any indebtedness for borrowed money provided that no such event shall constitute an Event of Default unless the indebtedness whether alone or when aggregated with other indebtedness relating to all (if any) other such events which shall have occurred shall exceed €20,000,000 (or its equivalent in any other currency or currencies); or
- (iv) any order shall be made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor (if applicable) or the Principal Subsidiary (other than for the purpose of (a) an amalgamation, merger or reconstruction approved by an Extraordinary Resolution of the holders of the Notes or (b) a voluntary solvent winding up of the Issuer (where the Issuer of the Notes is ESFIL) or the Principal Subsidiary where the surplus assets of the Issuer (where the Issuer of the Notes is ESFIL) or the Principal Subsidiary, as the case may be, are distributed to its shareholders

and, where the Issuer of the Notes is ESFIL, ESFIL is substituted as Issuer in accordance with the provisions of Condition 13); or

- (v) the Issuer or the Guarantor (if applicable) or the Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business (other than a cessation in the circumstances referred to in the exception to paragraph (iv) of this Condition 9 or in connection with the transfer of all or a major part of the business, undertaking and assets of the Issuer (where the Issuer of the Notes is ESFIL) or the Principal Subsidiary to the Guarantor or (provided that the Principal Subsidiary is substituted as principal debtor under the Notes where the Issuer of the Notes is ESFG, subject to and as provided in Condition 13) in connection with the transfer or all or a major part of the business, undertaking and assets of the Issuer (where the Issuer of the Notes is ESFG) to the Principal Subsidiary or for arm's length consideration receivable by the Issuer or the Principal Subsidiary, as the case may be); or
- (vi) the Issuer or the Guarantor (if applicable) or the Principal Subsidiary shall stop payment or shall be unable to, or shall admit inability to, pay its debts as they fall due, or shall be adjudicated or found bankrupt or insolvent by a court of competent jurisdiction or shall make a conveyance or assignment for the benefit of, or shall enter into any composition or other arrangement with, its creditors generally; or
- (vii) a receiver, trustee or other similar official shall be appointed in relation to the Issuer or the Guarantor (if applicable) or the Principal Subsidiary or in relation to the whole or a substantial part of the assets of any of them or an encumbrancer shall take possession of the whole or a substantial part of the assets of the Issuer or the Guarantor (if applicable) or the Principal Subsidiary, or a distress or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be discharged within 60 days; or
- (viii) the Issuer or the Guarantor (if applicable) or the Principal Subsidiary sells, transfers, lends or otherwise disposes of the whole or a major part of its undertaking or assets (including shareholdings in its subsidiaries or associated companies) and such disposal is substantial in relation to the assets of the ESFG and its subsidiaries as a whole, other than (a) the selling, transferring, lending or otherwise disposing on an arm's length basis; (b) in the case of the Issuer (where the Issuer of the Senior Notes is ESFIL) and the Principal Subsidiary, selling, transferring, lending or otherwise disposing to ESFG; or (c) (provided that the Principal Subsidiary is substituted as principal debtor under the Notes, subject to and as provided in Condition 13), in the case of the Issuer, selling, transferring, lending or otherwise disposing to the Principal Subsidiary; or
- (ix) except where the Issuer has been substituted as principal debtor pursuant to Condition 13, ESFIL ceases to be a subsidiary wholly owned and controlled, directly or indirectly, by the Guarantor; or

- (x) in the case of Senior Notes issued by ESFIL, the Guarantee is terminated or shall cease to be in full force and effect,

then any Senior Note may, by notice in writing given to the Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its Early Redemption Amount, together with accrued interest (if any) thereon, as of the date such notice is received by the Agent and such Senior Note shall accordingly without further formality become so due and payable on such date unless prior to such date all such defaults in respect of the relevant Senior Note shall have been cured.

Notice of any Event of Default will promptly be given to the Noteholders by the Issuer.

For the purposes of these Terms and Conditions, the “**Principal Subsidiary**” means Banco Espírito Santo, S.A.

(b) Dated Subordinated Notes

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

- (i) default is made in the payment of any principal or interest due in respect of the Dated Subordinated Notes or any of them and such default continues, in the case of principal, for a period of seven days or, in the case of interest, for a period of 14 days; or
- (ii) the Issuer (1) is subject to insolvency proceedings (*faillite*), (2) is subject to controlled management (*gestion contrôlée*), (3) has entered into a voluntary arrangement with its creditors (*concordat préventif de faillite*), (4) is granted a suspension of payments (*sursis de paiement*), (5) is put into voluntary or compulsory winding-up pursuant to the Luxembourg law of 10 August 1915 on commercial companies, as amended; or
- (iii) an ad hoc director (*administrateur provisoire*) is appointed by a court in respect of any part of the Issuer’s assets,

save in any such case in paragraph (ii) or (iii) above, for the purposes of reorganisation on terms approved in writing by an Extraordinary Resolution of the holders of the Dated Subordinated Notes,

then any Dated Subordinated Note may, by notice in writing given to the Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its Early Redemption Amount, together with accrued interest (if any) thereon, as of the date such notice is received by the Agent and such Dated Subordinated Note shall accordingly without further formality become so due and payable on such date unless prior to such date all such defaults in respect of the relevant Dated Subordinated Note shall have been cured.

Notice of any Event of Default will promptly be given to the holders of the Dated Subordinated Notes by the Issuer.

10. Replacement of Global Notes, Definitive Notes, Receipts, Coupons and Talons

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

11. Agent and Paying Agents

The names of the initial Agent and its initial specified office is set out below.

The Issuer and the Guarantor (if applicable) are entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange or admitted to listing or trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (ii) there will at all times be a Paying Agent (which may be the Agent) with a specified office in a city in Europe other than in the country in which the Issuer or the Guarantor (if applicable) is incorporated;
- (iii) there will at all times be an Agent; and
- (iv) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer and the Guarantor (if applicable) shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency or where the Agent is an FFI and does not become, or ceases to be, a Participating FFI, when it shall be of immediate effect) after not less than 30 or more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

As used herein:

“**Code**” means the U.S. Internal Revenue Code of 1986;

“**FFI**” means a “foreign financial institution” as such term is defined pursuant to sections 1471 through 1474 of the Code and any regulations thereunder or official interpretations thereof; and

“**Participating FFI**” means an FFI that, as from the effective date of any rules requiring withholding on “passthru payments” (as such term is defined pursuant to sections 1471 through 1474 of the Code and any regulations thereunder or official interpretations thereof), meets the requirements of section 1471(b) of the Code and any regulations or other official

guidance issued thereunder and that has not elected to be withheld upon pursuant to section 1471(b)(3) of the Code.

12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

13. Substitution

The Issuer, or any previous substituted company, may at any time, without the consent of the Noteholders, Receiptholders or the Couponholders, substitute for itself as principal debtor under the Notes, Receipts and the Coupons such company (the **Substitute**) as is specified in the Agency Agreement, provided that no payment in respect of the Notes or the Coupons is at the relevant time overdue. The substitution shall be made by a deed poll (the **Deed Poll**), to be substantially in the form exhibited to the Agency Agreement, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to be bound by the Terms and Conditions, the Notes, Receipts and Coupons, (ii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes and the Coupons shall be unconditionally guaranteed by the Guarantor by means of the Deed Poll, (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Receipts and Coupons represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect, (iv) the Substitute shall have become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it (including, where the Substitute is incorporated, domiciled or resident in, or subject to the taxing jurisdiction of a territory other than or in addition to Luxembourg or any authority therein or thereof having power to tax, undertakings or covenants shall be given by the Substitute in terms corresponding (where applicable) to the provisions of Conditions 6(b) and 7 with the substitution for (or, as the case may be, the addition to) the references to Luxembourg of references to that other or additional territory in which the Substitute is incorporated, domiciled or resident or to whose taxing authority it is subject (subject to such exceptions from the undertaking or covenant as reflect exceptions under the laws of that taxing jurisdiction and as are similar in scope and effect to the exceptions set out in Condition 7)), and (v) legal opinions addressed to the holders of the Notes shall have been delivered to them (care of the Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation and in England as to the fulfilment of the preceding conditions of this Condition 13 and the other matters specified in the Deed Poll, (vi) in the case of Dated Subordinated Notes, the prior consent of the Bank of Portugal has been obtained (if then required), and (vii) the Issuer shall have given at least 14 days' prior notice of such substitution to the holders of the Notes, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to holders of the Notes, will be available for inspection at the specified office of each of the Paying Agents. References in Condition 9 to obligations under the Notes shall be deemed to include obligations under the Deed Poll, and, where the Deed Poll contains a guarantee, the events listed in Condition 9 applicable to the Notes shall be deemed to include that guarantee not being (or being claimed by the guarantor not to be) in

full force and effect. In the case of substitution pursuant to this Condition 13, the new Issuer shall comply (for so long as the Notes are listed on the Luxembourg Stock Exchange) with the then prevailing requirements of the Luxembourg Stock Exchange in connection with any such substitution.

14. Notices

All notices regarding the Notes shall be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with any laws applicable to it (in connection with the listing of the Notes) and the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any Definitive Notes are issued, there may, so long as any Global Note is or are held in its or their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspapers the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules and so long as any Notes are listed on the Luxembourg Stock Exchange notice will also be given by publication on the website of the Luxembourg Stock Exchange (www.bourse.lu) if and to the extent that the rules of the Luxembourg Stock Exchange so require. Any such notice shall be deemed to have been given to the holders of the Notes on the third day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg, or on such other day as is specified in the applicable Final Terms.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

The holders of Coupons, Receipts or Talons shall be deemed to have received any notice duly given to Noteholders.

15. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of certain modifications of these Terms and Conditions. Such a meeting may be convened by the Issuer or Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including

modifying any date for payment of interest on the Notes, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes or Coupons or modifying the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. The majority required for passing an Extraordinary Resolution is 75 per cent. of the persons voting thereat upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 75 per cent. of the votes given on such poll. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent, the Issuer and the Guarantor (where applicable) may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Agency Agreement which is not materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of these Terms and Conditions or any provisions of the Notes, the Receipts, the Coupons or the Agency Agreement which is to correct a manifest error or to comply with mandatory provisions of the laws of Luxembourg.

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

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes ranking *pari passu* in all respects (or in all respects save for the Issue Date, the amount and the date of the first payment of interest thereon and/or the Issue Price) and so that the same shall be assimilated and be consolidated and form a single series with the outstanding Notes and references in these Terms and Conditions to “Notes” shall be construed accordingly.

17. Third Party Rights

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. Governing Law and Submission to Jurisdiction

(a) Governing Law

The Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law, except for Condition 2(c) (and any non-contractual obligations arising out of or in connection with Condition 2(c)), which shall be governed by, and construed in accordance with, Portuguese law. In each case, the application of such governing law shall be without prejudice to the applicability,

under the conflicts of rules applicable in the relevant forum, in light of such submission, of Portuguese law. The provisions of Articles 86 through 94-8 (inclusive) of the Luxembourg Law of 10 August 1915 concerning commercial companies, as amended, are expressly excluded to the extent that they would have been applicable.

(b) *Jurisdiction*

The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes, the Receipts or the Coupons (including any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes, the Receipts or the Coupons) and accordingly have submitted to the exclusive jurisdiction of the English courts. Each of the Issuer and the Guarantor (if applicable) waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders, the Receiptholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Agency Agreement, the Notes, the Receipts or the Coupons (including any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes, the Receipts or the Coupons) (together referred to as **Proceedings**) against the Issuer or the Guarantor in any other court of competent jurisdiction and, to the extent permitted by law, concurrent Proceedings in any number of jurisdictions.

(c) *Agent for Service of Process*

Each of the Issuer and the Guarantor (if applicable) will receive service of process in England in connection with any Proceedings at ESFG's London representative office being (currently at 10 Paternoster Square, London EC4M 7AL). If for any reason the Issuer or the Guarantor (if applicable) does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Service of process in respect of such Proceedings may also be made in any other manner permitted by law.

TERMS AND CONDITIONS OF THE UNDATED DEEPLY SUBORDINATED NOTES

The following are the terms and conditions (the “Terms and Conditions”) of the Undated Deeply Subordinated Notes to be issued by ESFG which will be incorporated by reference into each Global Note and which will be endorsed upon each Definitive Note (if any). The applicable Final Terms in relation to any Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes.

This Note may only be issued by Espírito Santo Financial Group S.A. (**ESFG**) and is one of a series of Notes issued with the benefit of the Agency Agreement (defined below). References herein to the “**Notes**” or “**Undated Deeply Subordinated Notes**” shall be references to the Notes of this Series (as defined below) and shall mean (i) in relation to any Notes represented by a temporary global note in bearer form (a **Temporary Global Note**) or a permanent global note in bearer form (a **Permanent Global Note**) (and **Global Note** means a Temporary Global Note or a Permanent Global Note), units of the lowest Specified Denomination in the Specified Currency of issue, (ii) individual definitive Notes in bearer form (**Definitive Notes**) issued in exchange (or part exchange) for a Global Note, and (iii) any Global Note. The Notes and the Coupons (each as defined below) have the benefit of an Agency Agreement dated 30 May 2012, as further amended and/or supplemented and/or restated from time to time, (the **Agency Agreement**) made between, inter alia, ESFG, Citibank, N.A., London Branch as issuing and principal paying agent and, if so specified in the applicable Final Terms, as calculation agent (the **Agent**, which expression shall include any successor agent or any other calculation agent specified in the applicable Final Terms and the **Paying Agent**, which expression shall include any additional or successor paying agents).

Interest bearing Definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons.

Any reference herein to “**Noteholders**” shall mean the holders of the Notes, and shall, in relation to any Notes represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), be construed as provided below. Any reference herein to “**Couponholders**” shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by ESFG and the Agent and specified in the applicable Final Terms.

The Final Terms applicable to this Note are attached hereto or endorsed hereon and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the “**applicable Final Terms**” are to the Final Terms attached hereto or endorsed hereon.

As used herein, “**Series**” means each original issue of Notes together with any further issues expressed to form a single series with the original issue and the terms of which (save for the

Issue Date, the amount and the date of the first payment of interest thereon and/or the Issue Price (as indicated in the applicable Final Terms)) are identical (including Interest Basis, Redemption/Payment Basis and Interest Payment Dates and whether or not the Notes are admitted to trading). As used herein, “**Tranche**” means all Notes of the same Series with the same Issue Date and Interest Commencement Date (if applicable).

Copies of the Agency Agreement (and if the Notes are admitted to trading on a regulated market in the European Economic Area or offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive 2003/71/EC as amended) the Final Terms relating to such Notes are available at the specified offices of the Agent. Copies of such Final Terms are available for viewing on the ESFG website at www.esfg.com. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Final Terms, which are binding on them.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated.

A Global Note may be exchanged in whole or, in certain circumstances, in part for Definitive Notes upon request by any holder of an interest therein in accordance with these Terms and Conditions, the provisions of the relevant Global Note and as specified in the applicable Final Terms.

1. Form, Denomination, Title and Transfer

The Notes are in bearer form and, except in the case of Global Notes, serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Final Terms.

This Note is an Undated Deeply Subordinated Note, as indicated in the applicable Final Terms.

This Note may be a Fixed Rate Note, a Floating Rate Note, an Index Linked Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Notes, except for Global Notes, are issued with Coupons attached, and if applicable Talons for further Coupons.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The holder of each Coupon, whether or not such Coupon is attached to the Note, in his capacity as such, shall be subject to and bound by the provisions contained in the relevant Note. Subject as set out below, ESFG and any Paying Agent may deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice to the contrary, including any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes are represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the

nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by ESFG and any Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant Global Note shall be treated by ESFG and any Paying Agent as the holder of such Notes in accordance with and subject to the terms of the relevant Global Note (and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

2. Status of the Notes

(a) Status and Subordination of the Undated Deeply Subordinated Notes

- (i) The Undated Deeply Subordinated Notes and any relative Coupons are direct, unsecured and, in accordance with paragraph (iii) below, subordinated obligations of ESFG and rank and will rank *pari passu* and rateably without any preference among themselves.
- (ii) The proceeds of the issue of the Undated Deeply Subordinated Notes will be treated for regulatory purposes as original own funds (*fundos próprios de base*) of ESFG. *Fundos próprios de base* (**original own funds** or **Tier 1 Capital**) shall have the meaning given to it in the relevant Articles of Aviso 06/10 issued by the Bank of Portugal, or otherwise recognised as *fundos próprios de base* by the Bank of Portugal, or any successor supervisory authority.
- (iii) In the event of bankruptcy or winding up of ESFG the holders of the Undated Deeply Subordinated Notes will be entitled to receive payment of the then outstanding nominal amount of the Undated Deeply Subordinated Notes, being the nominal amount prevailing at the relevant time after redenomination(s), if any, applied according to Condition 2(b) (*Loss Absorption*) plus accrued interest, if any, on such nominal amount from and including the Issue Date (if such event occurs in the first Interest Period after the Issue Date) or the preceding Interest Payment Date on which interest was either paid or cancelled pursuant to Condition 4(d) (*Interest Cancellation*) (if such event occurs after the first Interest Period), to the extent that there are available funds to this effect after payment to the higher ranking creditors of ESFG as described below. The claims of the holders of the Undated Deeply Subordinated Notes and the Coupons relating thereto (if any) will, in the event of the bankruptcy or winding up of ESFG, be subordinated in right of payment in the manner provided in these Terms and Conditions, and will:
 - A. be subordinated to the claims of all Senior Creditors of ESFG (as defined below). For the purpose of this sub-paragraph (iii), “**Senior Creditors of ESFG**” means creditors (1) who are unsubordinated creditors of ESFG; or (2) who are subordinated creditors of ESFG (including the holders of dated subordinated notes and coupons relating thereto (if any)) other than those whose claims rank, or are expressed to rank, *pari passu* with or junior to the claims of the holders of the Undated Deeply Subordinated Notes and the Coupons relating thereto (if any) (whether only in the event of a bankruptcy or winding up of ESFG or otherwise);

- B. be subordinated to all other responsibilities of ESFG, including undated subordinated debt of ESFG (if any), to which a higher ranking has been assigned (except for the entitlements arising from any other guarantee or contractual obligation of ESFG which has expressly been ranked equally or junior to the Undated Deeply Subordinated Notes);
- C. rank equally with the entitlements of holders of ESFG's preferential shares (if any), the entitlements arising under any guarantee granted by ESFG in respect of any preferential shares issued by any entity in which more than 50 per cent. of the voting shares or similar ownership interests are owned directly or indirectly by ESFG and any other obligations of ESFG which are or are expressed to be equally ranking with the Undated Deeply Subordinated Notes and the Coupons relating thereto, if any; and
- D. rank in priority to any payments in respect of the ordinary share capital of ESFG (including, if any, ordinary shares resulting from conversion of other instruments into ordinary share capital, upon such conversion having occurred) and of any other securities ranking or expressed to rank junior to the Undated Deeply Subordinated Notes, if any.

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

Without prejudice to the foregoing, the Undated Deeply Subordinated Notes will, in the event of a distribution of the assets in the dissolution or liquidation of ESFG, rank senior to the ordinary share capital of ESFG and *pari passu* with the entitlements of holders of preferential shares of ESFG (if any) and any entitlements arising under any guarantee granted by ESFG in respect of any preferential shares issued by any entity in which more than 50 per cent. of the voting shares or similar ownership interests are owned directly or indirectly by ESFG.

(b) Loss Absorption

Any amounts which, but for the provisions of Condition 4(d) (*Interest Cancellation*) or, as the case may be, the insolvency of ESFG, would be payable as principal or interest under the Undated Deeply Subordinated Notes will be available and may be used to absorb any losses of ESFG, in order to allow ESFG to continue its business activities (in accordance with the relevant Articles of Aviso 06/10 issued by the Bank of Portugal) as detailed below, further to a decision of the General Meeting of shareholders of ESFG or the Board of Directors of ESFG, as the case may be, or a direction received from the Bank of Portugal, taking into account the financial and solvency condition of ESFG.

In the above circumstances where unpaid principal and interest may be used to meet the losses of ESFG, the unpaid nominal amounts of interest first and then principal will be written down and utilised to the extent that may be necessary to meet the losses of ESFG.

The reduction in the nominal amount of the Undated Deeply Subordinated Notes outstanding may take place whenever ESFG is at risk of non-compliance with the

Own Funds Requirements Regulations, at the consolidated level only, in the opinion of either ESFG or the Bank of Portugal taking into account the most recently available reports from the Bank of Portugal regarding ESFG's compliance with the Own Funds Requirements Regulations and all subsequent available information. Such reduction will be effected proportionally between the nominal amount of the Undated Deeply Subordinated Notes outstanding, and other instruments outstanding which are also eligible as Tier 1 Capital subject to limits ranking *pari passu* therewith and the shareholders' capital (equity items attributable to shareholders including share capital and respective share premiums, reserves and other retained earnings, profit and losses and other comprehensive income) of ESFG on a *pro rata* basis. Notwithstanding any other provision, the nominal amount of each Undated Deeply Subordinated Note shall never be reduced to an amount lower than euro 0.01.

In these Terms and Conditions, "**Regulatory Capital**" means the capital required to allow ESFG to comply with the capitalisation requirements at any time applicable to credit institutions in Portugal, and calculated in accordance with the relevant Articles of Aviso 06/10 issued by the Bank of Portugal.

Subject to prior approval of the Bank of Portugal, the nominal amount of the Undated Deeply Subordinated Notes so reduced can only be reinstated and registered as a subordinated credit as if it had never been reduced to the extent that ESFG's Regulatory Capital registers a positive variation resulting from an improvement in ESFG's financial condition as a consequence of gains obtained in the course of ESFG's activities, such reinstatement being made proportionally between the nominal amount of the Undated Deeply Subordinated Notes outstanding, and other instruments outstanding which are also eligible as Tier 1 Capital subject to limits ranking *pari passu* therewith and the shareholders' capital on a *pro rata* basis. In the above cases and at all times, the reinstated amounts previously written down will revert to being treated as subordinated credits of the corresponding holders with the same level of subordination as before being written down.

Without prejudice to the following paragraph, in the determination of the proportional amount to allocate to the Undated Deeply Subordinated Notes, the losses (being the negative variation in the Regulatory Capital ratio resulting from a deterioration of ESFG's financial condition as a consequence of losses incurred in the course of ESFG's activities) or the gains (being the positive variation in the Regulatory Capital ratio resulting from an improvement of ESFG's financial condition as a consequence of gains obtained in the course of ESFG's activities), as the case may be, will be multiplied by the quotient of (i) the nominal amount of the Undated Deeply Subordinated Notes outstanding, and (ii) the sum of this nominal amount with the then existing nominal amount of other undated deeply subordinated notes outstanding, other instruments outstanding which are also eligible as Tier 1 Capital subject to limits and shareholders' capital. The determination of the proportional amount is based on the consolidated level only, and is determined at the discretion of ESFG or the Bank of Portugal, as the case may be, such determination being final, binding and conclusive.

The reinstatement of the previously reduced nominal amount of the Undated Deeply Subordinated Notes shall be made taking into account the existing elements that count for the denominator of the quotient referred to above immediately prior to such reinstatement, regardless of the fact that such elements at the time of the reduction could have been of a different amount.

During any period of writing down of the nominal amount of Undated Deeply Subordinated Notes pursuant to this Condition 2(b) (*Loss Absorption*) and until such nominal amount has been reinstated in full and registered as a subordinated credit as if it had never been written down, the written down nominal amount of Undated Deeply Subordinated Notes shall not bear interest.

Whenever the nominal amount of the Undated Deeply Subordinated Notes is written down and/or reinstated in accordance with the provisions above (and, for the avoidance of doubt, this mechanism may be applied by ESFG as many times as it may be deemed necessary, subject only to the limit of euro 0.01 per Undated Deeply Subordinated Note) ESFG will publish, or cause to be published, notices informing the holders of Undated Deeply Subordinated Notes of such write down or reinstatement in accordance with the provision of Condition 13 (*Notices*).

3. Negative Pledge

There is no negative pledge in respect of the Undated Deeply Subordinated Notes.

4. Interest and Interest Cancellation

Payments of interest on the Undated Deeply Subordinated Notes will occur in accordance with the provisions of this Condition 4 (*Interest and Interest Cancellation*) and will be subject to a discretionary decision of the Board of Directors of ESFG, as specified in paragraph (d) below (*Interest Cancellation*), without prejudice to the provisions of sub-paragraphs (d) (ii) (second paragraph) (*No Obligation to Pay Interest*) and (iii) (*Priority of Interest*) below. If the Board of Directors of ESFG decides not to make an interest payment on any Interest Payment Date, the amount of such interest payment will not be due, and will be forfeited in accordance with Condition 4(d) (*Interest Cancellation*).

(a) Interest on Fixed Rate Notes

Subject to the provisions of Condition 4(d) (*Interest Cancellation*), each Fixed Rate Note bears interest from (and including) the Interest Commencement Date specified in the applicable Final Terms (or the Issue Date, if no Interest Commencement Date is separately specified) to (but excluding) the date of redemption at the rate(s) per annum equal to the Rate(s) of Interest so specified. Subject to the provisions of Condition 4(d) (*Interest Cancellation*), interest will be payable in arrear on the Interest Payment Date(s) in each year and on the date of redemption if that does not fall on an Interest Payment Date. For so long as any of the Fixed Rate Notes is represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures.

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

As used in these Terms and Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date

or the Issue Date, as the case may be) to (but excluding) the next (or first) Interest Payment Date.

Unless specified otherwise in the applicable Final Terms, the “**Following Business Day Convention**” will apply to the payment of all Fixed Rate Notes, meaning that if the Interest Payment Date or date of redemption would otherwise fall on a day which is not a Business Day (as defined in Condition 4(b)(i) (*Interest Payment Dates*) below), the related payment of principal or interest will be made on the next succeeding Business Day as if made on the date such payment was due. If the “**Modified Following Business Day Convention**” is specified in the applicable Final Terms for any Fixed Rate Note, it shall mean that if the Interest Payment Date or date of redemption would otherwise fall on a day which is not a Business Day (as defined in Condition 4(b)(i) (*Interest Payment Dates*) below), the related payment of principal or interest will be made on the next succeeding Business Day as if made on the date such payment was due unless it would thereby fall into the next calendar month in which event the full amount of payment shall be made on the immediately preceding Business Day as if made on the day such payment was due. Unless specified otherwise in the applicable Final Terms, the amount of interest due shall not be changed if payment is made on a day other than an Interest Payment Date or the date of redemption as a result of the application of a Business Day Convention specified above or other Business Day Convention specified in the applicable Final Terms.

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

- (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

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

In these Terms and Conditions, “**Fixed Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a) (*Interest on Fixed Rate Notes*) (unless specified otherwise in the applicable Final Terms):

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Final Terms:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if

none, the Interest Commencement Date or Issue Date, as applicable) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined below) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; or

(B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and

(ii) if “**30/360**” is specified in the applicable Final Terms, the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date or Issue Date, as applicable) to (but excluding) the next scheduled Interest Payment Date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360 and, in the case of an incomplete month, the number of days elapsed; and

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

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

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Subject to the provisions of Condition 4(d) (*Interest Cancellation*), each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date specified in the applicable Final Terms (or the Issue Date, if no Interest Commencement Date is separately specified) and, unless specified otherwise in the applicable Final Terms, at the rate equal to the Rate of Interest payable in arrear on the date of redemption and on either:

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

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

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

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

- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “**Business Day**” means (unless otherwise stated in the applicable Final Terms) a day which is both:

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

Interest will be paid subject to and in accordance with the provisions of Condition 5 (*Payments*).

(ii) Rate of Interest

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

(iii) ISDA Determination

Unless specified otherwise in the applicable Final Terms, where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any) as determined by the Agent (or such other Calculation Agent specified in the applicable Final Terms). For the purposes of this sub-paragraph (iii) unless specified otherwise in the applicable Final Terms, “ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any)” for an Interest Period means a rate equal to the Floating Rate that would be determined under an interest rate

swap transaction under the terms of an agreement (regardless of any event of default or termination event thereunder) incorporating the ISDA Definitions with the holder of the relevant Note under which:

- (A) the manner in which the Rate of Interest is to be determined is the “Floating Rate Option” as specified in the applicable Final Terms;
- (B) the Issuer is the “Floating Rate Payer”;
- (C) the Agent or other person specified in the applicable Final Terms is the “Calculation Agent”;
- (D) the Interest Commencement Date is the “Effective Date”;
- (E) the Aggregate Nominal Amount of Notes is the “Notional Amount”;
- (F) the relevant Interest Period is the “Designated Maturity” as specified in the applicable Final Terms;
- (G) the Interest Payment Dates are the “Floating Rate Payer Payment Dates”;
- (H) the Margin is the “Spread”;
- (I) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**) or on the Euro-zone inter-bank offered rate (**EURIBOR**) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms; and
- (J) all other terms are as specified in the applicable Final Terms.

When this sub-paragraph (iii) applies, unless specified otherwise in the applicable Final Terms with respect to each relevant Interest Payment Date:

- (A) the amount of interest determined for such Interest Payment Date shall be the Interest Amount for the relevant Interest Period for the purposes of these Terms and Conditions as though calculated under sub-paragraph (vi) below; and
- (B) (i) “Floating Rate”, “Floating Rate Option”, “Floating Rate Payer”, “Effective Date”, “Notional Amount”, “Floating Rate Payer Payment Dates”, “Spread”, “Calculation Agent”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions; and (ii) “Euro-zone” means the region comprised of the Member States of the European Union that adopt the single currency in accordance with the Treaty on the Functioning of the European Union, as amended).

(iv) Screen Rate Determination for Floating Rate Notes

Unless specified otherwise in the applicable Final Terms, where Screen Rate Determination is specified in the applicable Final Terms as the manner in

which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum), for the Reference Rate (as specified in the applicable Final Terms) for deposits in the Specified Currency for that Interest Period which appears or appear, as the case may be, on the Relevant Screen Page (as specified in the applicable Final Terms) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date (as defined below) in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent (or such other Calculation Agent specified in the applicable Final Terms). Unless specified otherwise in the applicable Final Terms, if five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent (or such other Calculation Agent specified in the applicable Final Terms) for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

- (v) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

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

(vi) Determination of Rate of Interest and Calculation of Interest Amounts

The Agent (or if the Agent is not the Calculation Agent, the Calculation Agent specified in the applicable Final Terms) will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. The Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent (or if the Agent is not the Calculation Agent, the Calculation Agent specified in the applicable Final Terms) will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction (as specified in the applicable Final Terms) and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention or as specified in the applicable Final Terms. Without prejudice to sub-paragraph (viii) below, the determination of the Rate of Interest and calculation of each Interest Amount by the Agent (or the Calculation Agent specified in the applicable Final Terms if the Agent is not the Calculation Agent) shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on all parties. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, unless specified otherwise in the applicable Final Terms, in respect of the calculation of an amount of interest for any Interest Period:

- (A) if “**Actual/Actual**” or “**Actual/Actual (ISDA)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

- (C) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (E) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

- (vii) Notification of Rate of Interest and Interest Amount

Subject to the provisions of Condition 4(d) (*Interest Cancellation*), the Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to ESFG, the other Paying Agents and any stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being admitted to trading and listed and will cause notice thereof to be published or given in accordance with Condition 13 (*Notices*) as soon as possible after their determination but in no event later than the fourth London

Business Day after their determination. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without publication as aforesaid or prior notice in the event of an extension or shortening of the Interest Period in accordance with the provisions hereof. Any such amendment or alternative arrangements will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being admitted to trading or listing. For the purposes of this paragraph, the expression “*London Business Day*” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(viii) **Certificates to be Final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b) (*Interest on Floating Rate Notes and Index Linked Interest Notes*), whether by the Agent or other Calculation Agent, shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on ESFG, the Agent, the Calculation Agent (if applicable), any other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to ESFG, the Noteholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) ***Index Linked Interest Notes, Index Linked Redemption Notes and Dual Currency Notes***

In the case of Index Linked Interest Notes, Index Linked Redemption Notes or Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an index and/or a formula or, as the case may be, an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) ***Interest Cancellation***

The payment of interest is conditional upon, and dependent upon, a discretionary decision of ESFG, without prejudice to the provisions of sub-paragraph 4(d)(ii) (second paragraph) (*No Obligation to Pay Interest*) and sub-paragraph 4(d)(iii) (*Priority of Interest*) below. The Board of Directors of ESFG may in its discretion decide on the payment of interest, provided that no Interest Cancellation Event has occurred and is continuing on the relevant Interest Payment Date.

Subject to a decision to pay interest being taken by the Board of Directors of ESFG and to the absence of an Interest Cancellation Event, interest shall be payable on the Undated Deeply Subordinated Notes in accordance with the relevant provisions of the applicable Final Terms.

(i) **Interest Cancellation Event**

ESFG will in any case be prevented from making any interest payments, and interest shall not accrue or otherwise become due and payable to the relevant

holders on the relevant Interest Payment Date, regardless of a decision to that effect being taken by the Board of Directors of ESFG:

- (a) to the extent the sum of such envisaged interest payment and (i) the amount of dividends paid, decided or pending payment on ESFG's ordinary share capital or the amount of payments paid, decided or pending on the instruments mentioned in Condition 2(a)(iii)(D) and (ii) the amount of dividends relating to preferential shares of ESFG and the amount of other payments under obligations referred to in Condition 2(a)(iii)(C) which rank equally with the Undated Deeply Subordinated Notes in terms of their entitlement to the profits of ESFG, in each case which have already been paid in the then current fiscal year, exceed ESFG's Distributable Funds with reference to the most recently available reports from the Bank of Portugal regarding ESFG's compliance with the Own Funds Requirements Regulation and all subsequent available information; or
- (b) if notwithstanding the fact that the sum mentioned in a) above does not exceed ESFG's Distributable Funds, ESFG is in violation of the Own Funds Requirements Regulation, or to the extent that such payment would cause a breach by ESFG of the Own Funds Requirements Regulation taking into account the most recently available reports from the Bank of Portugal regarding ESFG's compliance with the Own Funds Requirements Regulation and all subsequent available information; or
- (c) if, other than in the circumstances mentioned in sub-paragraphs (a) and (b) above, (i) the Board of Directors of ESFG, or (ii) the Bank of Portugal, are of the opinion that such payment may compromise compliance by ESFG with the Own Funds Requirements Regulation, taking into consideration the (past and expected) evolution of the financial situation of ESFG and the most recently available reports from the Bank of Portugal regarding ESFG's compliance with the Own Funds Requirements Regulation and all subsequent available information; or
- (d) if the nominal amount of the Undated Deeply Subordinated Notes has been reduced pursuant to Condition 2(b) (*Loss Absorption*) and such nominal amount has not been reinstated in full and registered as a subordinated credit as if it had never been reduced.

(each of the above events, an **Interest Cancellation Event**).

Distributable Funds means, for the purposes hereof, and in respect of any fiscal year of ESFG, calculated by reference to the last day of the immediately preceding fiscal year, the sum of earned profits held and any other reserves and amounts capable of distribution to the shareholders of ESFG in accordance with Luxembourg law, plus or less, as the case may be, the amount of any profits or losses arising on such preceding fiscal year, in any case net of (i) the amounts necessary to set up or reinstate any reserves which are mandatory pursuant to a legal or statutory requirement; and (ii) the amount which is to be statutorily applied by ESFG in making distributions to ESFG's employees and directors, but in any case prior to the deduction of the payment of any dividends or other payments in respect of the ordinary shares

of ESFG or any other securities which are subordinated to the Undated Deeply Subordinated Notes, in respect of such fiscal year.

Own Funds Requirements Regulations means, at any given time, all regulations, requirements, directions and policies then in force relating to own funds requirements, issued by the Bank of Portugal or applicable to credit institutions in Portugal, including any such regulations, requirements, directions and policies as may be applicable in the future specifically to ESFG.

(ii) No Obligation to Pay Interest

In the event that:

- (1) no interest is paid on an Interest Payment Date or part of the interest that may otherwise have been due is not paid, in either case due to the occurrence of an Interest Cancellation Event; or
- (2) (subject as provided below in Condition 4(d)(iii) (*Priority of Interest*)) the Board of Directors of ESFG does not decide to make an interest payment on an Interest Payment Date,

the relevant interest amounts will not accrue or become due and payable, and shall be forfeited and the holders of the Undated Deeply Subordinated Notes will not be entitled to claim any payments in respect of interest relating to the Interest Period ending on such Interest Payment Date.

Notwithstanding payment of interest being conditional upon a discretionary decision of ESFG, in the absence of an Interest Cancellation Event the distribution of any revenues or dividends to the holders of any ordinary shares issued by ESFG in a given Interest Period, shall necessarily determine the payment of interest on the Undated Deeply Subordinated Notes on the following Interest Payment Date, in accordance with Condition 4 (*Interest and Interest Cancellation*). To this effect and prior to the distribution of such dividends or revenues, ESFG will set aside enough monies for payment of such interest amounts which will become due under the Undated Deeply Subordinated Notes subsequently to such distribution or payment, provided that such amounts set aside remain available to meet losses of ESFG and, as such, will not be distributable to the holders of Undated Deeply Subordinated Notes if an Interest Cancellation Event has occurred and is continuing.

If other than in the circumstances described in sub-paragraphs (a) to (d) of Condition 4(d)(i) (*Interest Cancellation Event*) the Board of Directors of ESFG decides in its discretion not to pay interest to the holders of Undated Deeply Subordinated Notes on a given Interest Payment Date, and no Interest Cancellation Event has occurred and is continuing on such Interest Payment Date, then ESFG's Board of Directors undertakes not to propose the distribution of revenues or dividends to the holders of any ordinary shares of ESFG in such Interest Period in which the discretionary non-payment of interest to the holders of Undated Deeply Subordinated Notes took place.

(iii) **Priority of Interest**

ESFG undertakes that, prior to the distribution of any revenues (including dividends to its shareholders), the amortisation or acquisition of own shares or other securities subordinated to the Undated Deeply Subordinated Notes and after the approval of such payments by General Meeting of ESFG's shareholders or Board of Directors of ESFG, as the case may be, (or, where such approval has not yet occurred, such payments have been formally proposed), ESFG will, in any circumstances, regardless of a decision of ESFG's Board of Directors, being taken to that effect, set aside enough monies for the payment of interest amounts which will (assuming there will be no Interest Cancellation Event on the relevant Interest Payment Date and on the basis that the relevant interest payment will be made on the relevant Interest Payment Date) become due on the next Interest Payment Date, provided that such amounts set aside remain available to meet losses of ESFG and, as such, will not be distributable to the holders of Undated Deeply Subordinated Notes if an Interest Cancellation Event has occurred and is continuing. In any case, no payment of interest will be made in violation of the Interest Cancellation Events provisions.

(e) ***Accrual of Interest***

Without prejudice to the provisions of Condition 4(d) (*Interest Cancellation*) above, each Undated Deeply Subordinated Note (or in the case of the redemption of part only of an Undated Deeply Subordinated Note, that part only of such Undated Deeply Subordinated Note to be redeemed) will cease to bear interest (if any) from the date scheduled for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue at the rate of interest then applicable or at such other rate as may be specified in the applicable Final Terms until the earlier of (i) the day on which, upon due presentation or surrender of such Note (if required), the relevant payment is made; and (ii) the day on which the Agent having received the funds required to make such payment, notice is given to the Noteholders in accordance with Condition 13 (*Notices*) of receipt of all sums due in respect thereof up to that date.

5. Payments

Any payments made to the holders of Undated Deeply Subordinated Notes will be subject to the limitations established in these Terms and Conditions and ESFG will notify, or will cause the notification, of the holders of Undated Deeply Subordinated Notes of any such payments, as it may deem appropriate, and in accordance with Condition 13 (*Notices*) below.

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

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) unless specified otherwise in the applicable Final Terms;

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee; and
- (iii) payment in U.S. dollars shall be made to a U.S. dollar account outside the United States specified by the payee.

Payments will be subject in all cases, but without prejudice to the provisions of Condition 7 (*Taxation*), to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto.

(b) *Presentation of Definitive Notes and Coupons*

Payments of principal in respect of Definitive Notes will (subject as provided below) be made in the Specified Currency in the manner provided in paragraph (a) above only against surrender of such Definitive Notes, and payments of interest in respect of Definitive Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)). Subject to any applicable laws and regulations, such payments made by transfer will be made in immediately available funds to an account maintained by the payee with a bank located outside the United States. No payment in respect of any Definitive Note or Coupon will be made upon presentation of such Definitive Note or Coupon at any office or agency of ESFG (if applicable) or any Paying Agent in the United States, nor will any such payment be made by transfer to an account in the United States.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Index Linked Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the aggregate amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Unless otherwise specified in the applicable Final Terms, each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 20 years after the Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon the date on which any Floating Rate Note, Dual Currency Note or Index Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any Definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding

Interest Payment Date or, as the case may be, the Interest Commencement Date or Issue Date (as applicable) shall be payable only against surrender of the relevant Definitive Note.

(c) *Payments in respect of Global Notes*

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

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and ESFG will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by ESFG to, or to the order of, the holder of such Global Note. No person other than the holder of such Global Note shall have any claim against ESFG in respect of any payments due on that Global Note.

(d) *Amounts payable in U.S. dollars*

Notwithstanding the foregoing provisions of this Condition, U.S. dollar payments of principal and/or interest in respect of the Notes denominated in U.S. dollars will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:

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

(e) Payment Day

Unless specified otherwise in the applicable Final Terms, if the due date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, unless otherwise specified in the applicable Final Terms, “Payment Day” means any day which (subject to Condition 8 (*Prescription*)) is both:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation (if presentation is required); and
 - (B) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(f) Interpretation of Principal and Interest

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

- (i) any additional amounts which may be payable under Condition 7 (*Taxation*);
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Redemption Amount of the Notes; and
- (iv) the Optional Redemption Amount(s) (if any) of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable under Condition 7 (*Taxation*).

6. Redemption and Purchase

(a) Redemption

The Undated Deeply Subordinated Notes are not subject to mandatory redemption by ESFG and will only be redeemed in the circumstances referred to under this Condition 6 (*Redemption and Purchase*), and in any such case provided that such redemption has been expressly authorised by the Bank of Portugal.

ESFG may not choose to redeem the Undated Deeply Subordinated Notes (*Issuer Call*) before the fifth anniversary of the Issue Date other than in the specific circumstances described in paragraphs (b), (c) and (d) below, and in any such case provided that the Bank of Portugal has previously approved such redemption.

In the situations specified in this Condition 6, the Undated Deeply Subordinated Notes will be redeemed by ESFG at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the relevant redemption date. Each Undated Deeply Subordinated Note is undated and accordingly has no final maturity date and is only redeemable or payable in accordance with the following provisions of this Condition 6 (*Redemption and Purchase*).

(b) Redemption for Tax Reasons

(i) The Undated Deeply Subordinated Notes may be redeemed at the option of ESFG (subject to the prior consent of the Bank of Portugal) in whole, but not in part, at any time (if this Undated Deeply Subordinated Note is neither a Floating Rate Note nor an Index Interest Note) or on any Interest Payment Date (if this Undated Deeply Subordinated Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 13 (*Notices*), the Noteholders (which notice shall be irrevocable), if:

(A) on the occasion of the next payment due under the Notes, ESFG will be or is expected to become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Luxembourg or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment is expected to become effective on or after the Issue Date of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by ESFG taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which ESFG would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(b), ESFG shall deliver to the Agent a certificate signed by two directors of ESFG stating that ESFG is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of ESFG to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that ESFG has or will become obliged to pay such additional amounts as a result of such change or amendment. The Agent shall be entitled to accept any such certificate and opinion delivered to it as sufficient evidence of the satisfaction of such conditions precedent in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

- (ii) Each Undated Deeply Subordinated Note redeemed pursuant to this Condition 6(b) will be redeemed at its Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

If Issuer Call is specified in the applicable Final Terms, ESFG may (subject to the prior consent of the Bank of Portugal) and other than during the first five years following the Issue Date or, if prior to such date, provided that the Bank of Portugal has expressly confirmed its understanding that the relevant Tranche of Undated Deeply Subordinated Notes being redeemed is replaced with another Tranche which in the opinion of the Bank of Portugal satisfies at least the same requirements as the Redeemed Notes (as defined below) in terms of eligibility as Tier 1 capital of ESFG), having given not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 13 (*Notices*), the Noteholders (which notice shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s). Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not greater than the Maximum Redemption Amount, both as indicated in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected (i) individually by lot, in the case of Redeemed Notes represented by Definitive Notes, and (ii) in accordance with the rules of Euroclear and/ or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 60 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by Definitive Notes, a list of the serial numbers of such Redeemed Notes will be published or notified in accordance with Condition 13 (*Notices*) not less than 15 days prior to the date fixed for redemption, or such other period as is specified in the applicable Final Terms. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by ESFG to the Noteholders in accordance with Condition 13 (*Notices*) at least five days prior to the Selection Date.

(d) ***Redemption for reason of Disqualification as Original Own Funds***

If a Disqualification as Original Own Funds Event has occurred and is continuing, the Undated Deeply Subordinated Notes will be redeemed on any date, at ESFG's option, by giving not less than 30 nor more than 60 days' notice to Noteholders in accordance with Condition 13 (*Notices*) and subject to the prior consent of the Bank of Portugal. In such circumstances the Undated Deeply Subordinated Notes will be redeemed at their nominal amount, together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Disqualification as Original Own Funds Event means any change (i) in any applicable law or regulations, or (ii) in the application or official interpretation of such laws or regulations, as a result of which the Board of Directors of ESFG decides, or the Bank of Portugal either publicly or by means of individual notification to

ESFG determines, that for the purposes of the Own Funds Requirements Regulations, the Undated Deeply Subordinated Notes are no longer eligible as Tier 1 Capital for ESFG and/or ESFG group determined as such for regulatory capital purposes.

(e) Redemption Amounts

For the purpose of paragraph (b) above, each Note will be redeemed at its Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Calculation Amount, at the Final Redemption Amount thereof; or
- (ii) in the case of Notes with a Final Redemption Amount which is or may be less or greater than the Calculation Amount or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their nominal amount.

(f) Purchases

ESFG or any of its subsidiaries may, subject to the prior consent of the Bank of Portugal, at any time purchase Notes (provided that, in the case of Definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of ESFG, surrendered to any Paying Agent for cancellation. In accordance with the existing Own Funds Requirements Regulations and the related executing measures recognised by the Bank of Portugal, ESFG and any of its subsidiaries are currently not allowed to hold Undated Deeply Subordinated Notes in excess of the lower of: (a) 10 per cent. of a specific issue amount, and (b) three per cent. of all issues of Undated Deeply Subordinated Notes outstanding, or (c) any other specific thresholds which are recognised by the Bank of Portugal in the future.

(g) Cancellation

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

7. Taxation

All payments of principal and interest in respect of the Notes by ESFG will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In the event that ESFG or any agent of ESFG is required by law to make such withholding or deduction, ESFG will pay to the extent permitted by law such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or

deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (i) where the withholding or deduction in question is required by virtue of the Noteholder or Couponholder having some connection with Luxembourg other than the mere holding of such Note or Coupon; and/or
- (ii) where presentation of the Note or Coupon is required, presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day, assuming that day to have been a Payment Day (as defined in Condition 5 (*Payments*)); and/or
- (iii) where the Noteholder or Couponholder of which would not be liable for such taxes or duties in respect of such Note or Coupon by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; and/or
- (iv) where such withholding or deduction is imposed on a payment to or for an individual or a residual entity within the meaning of the EU Savings Directive 2003/48/EC and is required to be made pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, such Directive or law; and/or
- (v) where the Noteholder or Couponholder of which would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13 (*Notices*).

8. Prescription

The Global Notes, Definitive Notes and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 20 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 8 (*Prescription*) or Condition 5(b) (*Presentation of Definitive Notes and Coupons*) or any Talon which itself would be void pursuant to Condition 5(b) (*Presentation of Definitive Notes and Coupons*).

9. Events of Default relating to Undated Deeply Subordinated Notes

There will be no events of default in respect of the Undated Deeply Subordinated Notes.

10. Replacement of Global Notes, Definitive Notes, Coupons and Talons

Should any Global Note, Definitive Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the

claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as ESFG may reasonably require. Mutilated or defaced Global Notes, Definitive Notes, Coupons or Talons must be surrendered before replacements will be issued.

11. Agent and Paying Agents

The names of the initial Agent and its initial specified office is set out below.

ESFG is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/ or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange or admitted to listing or trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (ii) there will at all times be a Paying Agent (which may be the Agent) with a specified office in a city in Europe other than in the country in which ESFG is incorporated;
- (iii) there will at all times be an Agent; and
- (ii) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, ESFG shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d) (*Amounts payable in U.S. dollars*). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency or where the Agent is an FFI and does not become, or ceases to be, a Participating FFI, when it shall be of immediate effect) after not less than 30 or more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13 (*Notices*).

As used herein:

“**Code**” means the U.S. Internal Revenue Code of 1986;

“**FFI**” means a “foreign financial institution” as such term is defined pursuant to sections 1471 through 1474 of the Code and any regulations thereunder or official interpretations thereof; and

“**Participating FFI**” means an FFI that, as from the effective date of any rules requiring withholding on “passthru payments” (as such term is defined pursuant to sections 1471 through 1474 of the Code and any regulations thereunder or official interpretations thereof), meets the requirements of section 1471(b) of the Code and any regulations or other official guidance issued thereunder and that has not elected to be withheld upon pursuant to section 1471(b)(3) of the Code.

12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*).

13. Notices

All notices regarding the Notes shall be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with any laws applicable to it (in connection with the listing of the Notes) and the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any Definitive Notes are issued, there may, so long as any Global Note is or are held in its or their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspapers the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules and so long as any Notes are listed on the Luxembourg Stock Exchange notice will also be given by publication on the website of the Luxembourg Stock Exchange (www.bourse.lu) if and to the extent that the rules of the Luxembourg Stock Exchange so require. Any such notice shall be deemed to have been given to the holders of the Notes on the third day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg, or on such other day as is specified in the applicable Final Terms.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

The holders of Coupons or Talons shall be deemed to have received any notice duly given to Noteholders.

14. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of certain modifications of these Terms and Conditions. Such a meeting may be convened by ESFG or Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear

majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or Coupons (including modifying any date for payment of interest on the Notes, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes or Coupons or modifying the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. The majority required for passing an Extraordinary Resolution is 75 per cent. of the persons voting thereat upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 75 per cent. of the votes given on such poll. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

Without prejudice to the provisions of Condition 4 (*Interest and Interest Cancellation*), the Agent and ESFG may agree, without the consent of the Noteholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Agency Agreement which is not materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of these Terms and Conditions or any provisions of the Notes, the Coupons or the Agency Agreement which is to correct a manifest error or to comply with mandatory provisions of the laws of Luxembourg.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 13 (*Notices*) as soon as practicable thereafter.

Notwithstanding the foregoing, any modification of any of these Terms and Conditions or any of the provisions of the Notes, the Coupons or the Agency Agreement that ESFG, in its absolute discretion, believes would or might cause the Notes to cease to be eligible as Tier 1 Capital of ESFG and/or for the ESFG group determined as such for regulatory capital purposes (or to cease to be eligible for such other regulatory capital treatment as may apply to such Notes immediately prior to any such modification) may only be made with the prior consent of the Bank of Portugal and shall not take effect until such consent is obtained.

15. Further Issues

ESFG shall be at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes ranking *pari passu* in all respects (or in all respects save for the Issue Date, the amount and the date of the first payment of interest thereon and/or the Issue Price) and so that the same shall be assimilated and be consolidated and form a single series with the outstanding Notes and references in these Terms and Conditions to “Notes” shall be construed accordingly.

16. Third Party Rights

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17. Governing Law and Submission to Jurisdiction

(a) *Governing Law*

The Agency Agreement, the Notes (except Conditions 2, 4 and 6) and the Coupons (and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes (except Conditions 2, 4 and 6) and the Coupons) are governed by, and shall be construed in accordance with, English law. Conditions 2, 4 and 6 (and any non-contractual obligations arising out of or in connection with Conditions 2, 4 and 6) are governed by, and shall be construed in accordance with, Portuguese law. In each case, the application of such governing law shall be without prejudice to the applicability, under the conflicts of rules applicable in the relevant forum, in the light of such submission, of Portuguese law. The provisions of Articles 86 through 94-8 (inclusive) of the Luxembourg Law of 10 August 1915 concerning commercial companies, as amended, are expressly excluded to the extent that they would have been applicable.

(b) *Jurisdiction*

The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes or the Coupons (including any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes or the Coupons) and accordingly have submitted to the exclusive jurisdiction of the English courts. ESFG waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Agency Agreement, the Notes or the Coupons (including any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes or the Coupons) (together referred to as **Proceedings**) against ESFG in any other court of competent jurisdiction and, to the extent permitted by law, concurrent Proceedings in any number of jurisdictions.

(c) *Agent for Service of Process*

ESFG will receive service of process in England in connection with any Proceedings at ESFG's London representative office being (currently at 10 Paternoster Square, London EC4M 7AL). If for any reason ESFG does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Service of process in respect of such Proceedings may also be made in any other manner permitted by law.

USE OF PROCEEDS

The net proceeds from each issue of Senior Notes will be applied by the relevant Issuer for its general financing and corporate purposes, which include making a profit. The net proceeds from each issue of Dated Subordinated Notes and Undated Deeply Subordinated Notes will be applied by ESFG to augment the ESFG Group's regulatory capital and any balance of such net proceeds will be applied for its general financing and corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the EMTN Programme.

Final Terms

Dated []

[ESPÍRITO SANTO FINANCIAL GROUP S.A.]
[ESFIL - ESPÍRITO SANTO FINANCIÈRE S.A.]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
[Guaranteed by Espirito Santo Financial Group S.A.]
under the €2,000,000,000 Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

[The Prospectus dated 30 May 2012 [as supplemented from time to time] referred to below (as completed by these Final Terms) has been prepared on the basis that, except as provided in sub-paragraph (ii) below, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) as amended (which includes the amendments made by the Directive 2010/73/EU to the extent that such amendments have been implemented in a Member State) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly, any person making or intending to make an offer of the Notes may only do so in:

- (i) circumstances in which no obligation arises for the Issuer or any Dealer or Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case in relation to such offer; or
- (ii) those Public Offer Jurisdictions mentioned in Paragraph 10 of Part B below, provided such person is one of the persons mentioned in Paragraph 10 of Part B below and that such offer is made during the Offer Period specified for such purposes therein.

Neither the Issuer nor any Dealer or Manager has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.]

*[Include the above legend where a non-exempt offer of Notes is anticipated.]**

[The Prospectus dated 30 May 2012 referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) as amended (which includes the amendments made by the Directive 2010/73/EU to the extent that such amendments have been implemented in a Member State) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer or Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer or Manager has

authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.]

*[Include the above legend where only an exempt offer of Notes is anticipated.]***

Terms used herein shall be deemed to be defined as such for the purposes of the [Terms and Conditions of the Notes (other than Undated Deeply Subordinated Notes)/Terms and Conditions of the Undated Deeply Subordinated Notes] set forth in the Prospectus dated 29 May 2012 [and the Prospectus Supplement[s] dated []], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended (which includes the amendments made by the Directive 2010/73/EU to the extent that such amendments have been implemented in a Member State) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus [as so supplemented], including documents incorporated by reference. Full information on the Issuer [, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the Prospectus Supplement[s]] [is][are] available for viewing on Espirito Santo Financial Group S.A.'s website, which can be found at www.esfg.com and [is][are] available on the website of the Luxembourg Stock Exchange at www.bourse.lu.

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

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (other than Undated Deeply Subordinated Notes) (the **Conditions**) set forth in, and extracted from, the Prospectus dated 6 May 2011 and which are incorporated by reference in the Prospectus dated 30 May 2012. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (2003/71/EC) as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a Member State) (the **Prospectus Directive**) and must be read in conjunction with the Prospectus dated 30 May 2012 [and the Prospectus Supplement[s] dated []], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, including the Conditions which are extracted from the Prospectus dated 6 May 2011 and incorporated by reference in the Prospectus dated 30 May 2012. Full information on the Issuer [, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated 30 May 2012 [and the Prospectus Supplement[s] dated []]. Copies of the Prospectus [and the Prospectus Supplement[s]] [is][are] available for viewing on Espirito Santo Financial Group S.A.'s website, which can be found at www.esfg.com and [is][are] available on the website of the Luxembourg Stock Exchange at www.bourse.lu.]

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

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitutes “significant new factors” and consequently triggers the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. [(a)] Issuer: Espírito Santo Financial Group S.A./ESFIL - Espírito Santo Financière S.A.
- [(b) Guarantor:] [Espírito Santo Financial Group S.A.]
2. (a) Series Number: []
- (b) Tranche Number: []
- (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3. Specified Currency or Currencies: []
- (Specified Currency)*
4. Aggregate Nominal Amount:
- (a) Series: []
- (b) Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date](if applicable)]
6. (a) Specified Denominations: []
- []
- (If the Specified Denomination is expressed to be €100,000 or its equivalent and multiples of a lower nominal amount (e.g. €1,000) insert the following sample wording:*
- “€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Definitive Notes will be issued with a Specified Denomination above [€199,000]”*
- (N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €1,000 and the €100,000 minimum Specified Denominations are not required.)*
- (b) Calculation Amount: []
- (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (a) Issue Date: []
- (b) Interest Commencement Date: [Specify/Issue Date/Not Applicable]
8. Maturity Date: [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year]]
9. Interest Basis: [[] per cent. Fixed Rate]
- [[LIBOR/EURIBOR] [] per cent.]

- [Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [*specify other*]
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Instalment]
 [*specify other*]
 (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of the Prospectus Directive Regulation will apply*)
11. Change of Interest Basis or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Notes into another Interest Basis or Redemption/Payment Basis*]
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
13. (a) Status of the Notes: [Senior/Dated Subordinated/Undated Deeply Subordinated]
 [(b) Status of the Guarantee:] [Senior]
 [(b)/(c)] [Date [Board] approval for issuance of Notes [and Guarantee] obtained]: [[] and [], respectively]]
 (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee*)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions: [Applicable/Not Applicable]
 (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (a) Rate(s) of Interest: [[] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]]
- (b) Interest Payment Date(s): [[] in each year from and including [] up to and including [the Maturity Date]/[*specify other*] [adjusted in accordance with [*specify Business Day Convention and*

any Additional Business Centre(s) for the definition of "Business Day"/ [with no adjustment for period end dates]/ [not adjusted]]

(N.B. This will need to be amended in the case of long or short coupons)

- (c) Fixed Coupon Amount(s): per Calculation Amount
(Applicable to Notes in definitive form)
- (d) Broken Amount(s): per Calculation Amount payable on the Interest Payment Date falling [in/on] [Not Applicable]
(Applicable to Notes in definitive form)
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) Determination Date(s): in each year
(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)) [Not Applicable]
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Specified Period(s):
- (b) Specified Interest Payment Dates:
- (c) First Interest Payment Date:
- (d) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[specify other]]
- (e) Additional Business Centre(s):
- (f) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (g) Party responsible for calculating the Rate of

Interest and Interest
Amount (if not the
Agent):

(h) Screen Rate
Determination:

- Reference Rate:
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)

- Interest Determination Date(s):
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)

- Relevant Screen Page:
(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

(i) ISDA
Determination:

- Floating Rate Option:
- Designated Maturity:
- Reset Date:
- ISDA Definitions: [2000/2006]

(j) Margin(s): +/- per cent. per annum

(k) Minimum Rate of Interest: per cent. per annum

(l) Maximum Rate of Interest: per cent. per annum

(m) Day Count Fraction: [Actual/Actual (ISDA)] [Actual/Actual]

[Actual/365 (Fixed)]

[Actual/360]

[30/360] [360/360] [Bond Basis]

[30E/360] [Eurobond Basis]

[30E/360 (ISDA)]

[Actual/365 (Sterling)]

[Other]

(See Condition 4 for alternatives)

- (n) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:
17. Zero Coupon Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Accrual Yield: per cent. per annum
- (b) Reference Price:
- (c) Any other formula/basis of determining amount payable:
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 6(f)(iii) and 6(k) apply/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)
18. Index Linked Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of the Prospectus Directive Regulation will apply)
- (a) Index/Formula/other variable: [give or annex details]
- (b) Party responsible for calculating the Rates(s) of Interest and/or Interest Amounts (if not the Agent):
 [give name of the Calculation Agent (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
- (c) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:
- (d) Determination Dates:

- (e) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (f) Interest or calculation period(s):
- (g) Specified Interest Payment Dates:
- (h) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*specify other*]
- (i) Additional Business Centre(s):
- (j) Minimum Rate of Interest: per cent. per annum
- (k) Maximum Rate of Interest: per cent. per annum
19. Dual Currency Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of the Prospectus Directive Regulation will apply)
- (a) Rate of Exchange/method of calculating Rate of Exchange: [*give or annex details*]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent):
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*

(d) Person at whose option Specified Currency(ies) is/are payable:

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(a) Optional Redemption Date(s):

(b) Optional Redemption Amount and method, if any, of calculation of such amount(s): per Calculation Amount/Specify other/see Appendix

(c) If redeemable in part:

(i) Minimum Redemption Amount: per Calculation Amount

(ii) Maximum Redemption Amount: per Calculation Amount

(d) Notice period (if other than as set out in the conditions):
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

21. Investor Put [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Optional Redemption Date(s):

(b) Optional Redemption Amount and method, if any, of calculation of such amount(s): per Calculation Amount/Specify other/see Appendix

- (c) Notice period (if other than as set out in the Conditions):
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
22. Final Redemption Amount: per Calculation Amount/specify other/see Appendix][Par]
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of the Prospectus Directive Regulation will apply)*
- In cases where the Final Redemption Amount is Index Linked or other variable-linked: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Index/Formula/variable:
- (b) Party, if any, responsible for calculating the Final Redemption Amount (if not the Agent):
- (c) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:
- (d) Determination Date(s):
- (e) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (f) Payment Date:
- (g) Minimum Final Redemption Amount: per Calculation Amount

(h) Maximum Final Redemption Amount: [] per Calculation Amount

23. Early Redemption Amount:

Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(h)): [[] per Calculation Amount/specify other/see Appendix][Par]]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note on and after the Exchange Date]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
[[The] Permanent Global Note [is] exchangeable in whole, but not in part, for Definitive Notes (a) at the request of the Issuer; and/or (b) [upon the Noteholders instructing Euroclear, Clearstream, Luxembourg or any other agreed clearing system in which such Permanent Global Note is being held to give at least 60 days' written notice to the Agent[, subject to the payment of costs in connection with the printing and distribution of definitive Notes]/[(free of charge)]; and/or (c)] (free of charge) upon the occurrence of an Exchange Event (as described in "Form of the Notes" in the Prospectus dated 30 May 2012).] [If paragraph (b) is inserted, Notes cannot be issued with "€100,000 + €1,000" Specified Denominations]
[N.B.: in respect of Notes with "€100,000 + €1,000" Specified Denominations, a Permanent Global Note can only be exchangeable for Definitive Notes upon an Exchange Event. The Temporary Global Note can only be exchangeable for a Permanent Global Note.] [[The] Permanent Global Note [is] exchangeable (free of charge) in whole, but not in part, for Definitive Notes only upon the occurrence of an Exchange Event (as described in "Form of the Notes" in the Prospectus dated 30 May 2012.)
[Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with Article 4 of the Belgian law of 14 December 2005. (Include only for Notes that are to be offered in Belgium)]
25. New Global Note: [Yes][No]

26. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]
(Note that this item relates to the place of payment, and not Interest Period end dates to which items 15(b), 16(e) and 18(i) relate)
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. *N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
29. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
30. Redenomination and Renominalisation: [Redenomination/Renominalisation applicable] [Not Applicable]
(if Redenomination/Renominalisation is/are applicable, specify the terms of the Redenomination/Renominalisation)
31. Governing law: [English law [except that Condition 2(c) (and any non-contractual obligations arising out of or in connection with Condition 2(c)) of the Terms and Conditions of the Notes (other than Undated Deeply Subordinated Notes) shall be governed by, and construed in accordance with, Portuguese law.] *(in relation to ESFG's issue of Dated Subordinated Notes only)* / [except that Conditions 2, 4 and 6 (and any non-contractual obligations arising out of or in connection with Conditions 2, 4 and 6) of the Terms and Conditions of the Undated Deeply Subordinated Notes shall be governed by, and construed in accordance with, Portuguese law.] *(in relation to ESFG's issue of Undated Deeply Subordinated Notes only)*
32. Other terms or special conditions: [Not Applicable/give details]

(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

33. (a) If syndicated, names [and addresses] * of Managers [and underwriting commitments] *: [Not Applicable/give names [and addresses and underwriting commitments]] *
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.) **
- (b) Date of [Syndication] Agreement: []
- (c) Stabilising Manager (if any): [Not Applicable/give name]
34. If non-syndicated, name [and address] * of relevant Dealer: [Name [and address] *]
35. Total commission and concession *: [] per cent. of the Aggregate Nominal Amount *
36. U.S. Selling Restrictions: Reg. S Compliance Category 2; [TEFRA D/TEFRA C/TEFRA not applicable]
37. Non-exempt Offer: [Not Applicable]/[Applicable – see Paragraph 10 of Part B below]
38. Additional selling restrictions: [Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] [public offer in the Public Offer Jurisdictions]* [and] [admission to trading on [specify relevant regulated market] [and for listing on the official list of the Luxembourg Stock Exchange] of the Notes described herein] pursuant to the €2,000,000,000 Euro Medium Term Note Programme of Espírito Santo Financial Group S.A. and ESFIL - Espírito Santo Financière S.A.

RESPONSIBILITY

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

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

By:.....

By:.....

Duly authorised

Duly authorised

By:.....

By:.....

Duly authorised

Duly authorised]

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing and Admission to Trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify regulated market] [and for listing on the official list of the Luxembourg Stock Exchange] with effect from [] [Not Applicable.]

*(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.) **

- (ii) Estimate of total expenses related to admission to trading:** []**

2. RATINGS

Ratings:

[The Notes to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)].]

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

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

[[Insert the legal name of the relevant credit rating agency entity] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such [insert the legal name of the relevant credit rating agency entity] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]

[[Insert the legal name of the relevant non-EU credit rating agency entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**), but it [is]/[has applied to be] certified in accordance with the CRA Regulation [[EITHER:] and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation] [[OR:] although notification of the corresponding certification decision has not yet been provided by the European Securities and Markets Authority and [insert the legal name of the relevant non-EU credit rating agency entity] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA

Regulation].]

*[[Insert the legal name of the relevant non-EU credit rating agency entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings have been endorsed by [insert the legal name of the relevant EU-registered credit rating agency entity] in accordance with the CRA Regulation. [Insert the legal name of the relevant EU-registered credit rating agency entity] is established in the European Union and registered under the CRA Regulation. As such [insert the legal name of the relevant EU credit rating agency entity] is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation. ESMA has indicated that ratings issued in [Japan/Australia/the USA/Canada/Hong Kong/Singapore/Argentina/Mexico/Brazil (delete as appropriate)] which have been endorsed by [insert the legal name of the relevant EU CRA entity that applied for registration] may be used in the EU by the relevant market participants.]*

[[Insert the legal name of the relevant non-EU credit rating agency entity] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended). Insert the legal name of the relevant non-EU credit rating agency entity] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]

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

[Save for any fees payable to the [Dealers/Managers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

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

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

[(i) Reasons for the Offer: []

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

[(ii)] Estimated net proceeds: [] [(following deduction of the [Manager's/Managers'] commission and concession) (before deduction of estimated total expenses)]

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

[(iii)] Estimated total expenses: [] *(Include breakdown of expenses)* [for legal, filing and miscellaneous expenses]

(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

5. YIELD (Fixed Rate Notes Only)

Indication of yield: []

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

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. HISTORIC INTEREST RATES (Floating Rate Notes Only) *

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters] *.

7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING AND POST ISSUANCE INFORMATION (Index Linked Notes Only)

[If there is a derivative component in the interest or the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Need to include a description of market disruption or settlement disruption events and adjustment provisions.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

8. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Notes Only)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.] **

9. OPERATIONAL INFORMATION

- (i) ISIN:
- (ii) Common Code:
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any):
- (vi) Intended to be held in a manner which would allow Euro system eligibility: [Yes][No]
 [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria] [*include this text if “yes” is selected in which case the Notes must be issued in NGN form.*]

10. TERMS AND CONDITIONS OF THE PUBLIC OFFER*

[Consider the circumstances in which the items specified below need to be completed or marked “Not Applicable” by reference to the requirements of the relevant home and/or host Member States where any non-exempt public offer is being made, in compliance with the Prospectus Directive, as implemented in such Member States.]

The Commission de Surveillance du Secteur Financier (CSSF) has provided the competent authorities in, *inter alia*, each of [[•], [•], [•], [•]] (together with Luxembourg, the **Public Offer Jurisdictions**) with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive. Copies of these Final Terms will be provided to the competent authorities in the Public Offer Jurisdictions.

The Issuer has agreed to allow the use of these Final Terms and the Prospectus by each of the Managers [and any placers (authorised by any of the Managers) involved in the offer (the **Placers**)] [No placers (the **Placers**) have been authorised by the Issuer or any of the Managers to be involved in the offer] in connection with possible offers of the Notes to the public in the Public Offer Jurisdictions during the Offer Period (as defined below).

Investors (as defined in the final paragraph on the first page of the Prospectus) intending to acquire or acquiring the Notes from any Offeror (as defined in the final paragraph on the first page of the Prospectus) should, as indicated in the legend, make appropriate enquiries as to whether that Offeror is acting in association with the Issuer. Whether or not the Offeror is described as acting in association with the Issuer, the Issuer's only relationship is with the Managers and the Issuer has no relationship with or obligation to, nor shall it have any relationship with or obligation to, an Investor, save as may arise under any applicable law or regulation.

The Issuer is only offering to and selling to the Managers pursuant to and in accordance with the terms of the [Syndication Agreement [*if not a syndicated transaction describe the dealer and the dealer agreement and replace references to Managers and Syndication Agreement throughout*]]. All sales to persons other than the Managers will be made by the Managers or persons to whom they sell, and/or otherwise make arrangements with, including the Placers. The Issuer shall not be liable for any offers and/or sales of Notes to, or purchases of Notes by, Investors at any time (including during the Offer Period) (other than in respect of offers and sales to, and purchases of Notes by, the Managers and only then pursuant to the Syndication Agreement) which are made by Managers or Placers or any other Offeror in accordance with the arrangements in place between any such Manager, Placer or other Offeror and its customers. Any person selling Notes at any time during the Offer Period may not be a financial intermediary of the Issuer; any person selling Notes at any time after the Offer Period is not a financial intermediary of the Issuer.

Each of the Managers has acknowledged and agreed, and any Placer will be required by the Managers to acknowledge and agree, that for the purpose of offer(s) of the Notes the Issuer has passported the Prospectus into each of the Public Offer Jurisdictions and will not passport the Prospectus into any other European Economic Area Member State; accordingly, the Notes may only be publicly offered in Public Offer Jurisdictions during the Offer Period or offered to qualified investors (as defined in the Prospectus Directive) or otherwise in compliance with Article 3(2) of the Prospectus Directive in any other European Economic Area Member State pursuant to and in accordance with the Prospectus and the Final Terms (without modification or supplement); and that all offers of Notes by it will be made only in accordance with the selling restrictions set forth in the Prospectus and the provisions of these Final Terms and in compliance with all applicable laws and regulations, provided that no such offer of Notes shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive (or supplement a prospectus pursuant to Article 16 of the Prospectus Directive) or to take any other action in any jurisdiction other than as described above.

- (i) Offer Period: From the date of and following publication of these Final Terms being [] 20[] to [], [].

- (ii) Offer Price: The Issuer has offered and will sell the Notes to the Managers (and no one else) at the Issue Price of [] per cent. less a total commission [and concession] of [] per cent. of the Aggregate Nominal Amount of Notes. Managers and Placers will offer and sell the Notes to their customers in accordance with arrangements in place between each such Manager and its customers (including Placers) or each such Placer and its customers by reference to the Issue Price and market conditions prevailing at the time.
- (iii) Conditions to which the offer is subject: Offers of the Notes are conditional on their issue and are subject to such conditions as are set out in the Syndication Agreement. As between Managers and their customers (including Placers) or between Placers and their customers, offers of the Notes are further subject to such conditions as may be agreed between them and/or as is specified in the arrangements in place between them.
- (iv) Description of the application process: A prospective Noteholder will purchase the Notes in accordance with the arrangements in place between the relevant Manager and its customers or the relevant Placer and its customers, relating to the purchase of securities generally. Noteholders (other than Managers) will not enter into any contractual arrangements directly with the Issuer in connection with the offer or purchase of the Notes.
- (v) Description of possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants: [Not Applicable][*specify*]
- (vi) Details of the minimum and/or maximum amount of application (whether in number of Notes or aggregate amount to invest): There are no pre-identified allotment criteria. The Managers and the Placers will adopt allotment and/or application criteria in accordance with customary market practices and applicable laws and regulations and/or as otherwise agreed between them.
- (vii) Method and time limits for paying up the Notes and for delivery of the Notes: The Notes will be sold by the Issuer to the Managers on a delivery against payment basis on the Issue Date. Prospective Noteholders will be notified by the relevant Manager or Placer of their allocations of Notes and the settlement arrangements in respect thereof.
- (viii) Manner and date in which results of the offer are to be made public: [Not Applicable][*specify*]
- (ix) Procedure for exercise of any right of pre-emption, [Not Applicable][*specify*]

negotiability of subscription rights and treatment of subscription rights not exercised:

- (x) Details of any tranche(s) reserved for certain countries: [Not Applicable][*specify*]
- (xi) Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made: Prospective Noteholders will be notified by the relevant Manager or Placer in accordance with the arrangements in place between such Managers or Placers and its customers. Any dealings in the Notes which take place will be at the risk of prospective Noteholders.
- (xii) Amount of any expenses and taxes specifically charged to the Noteholders: [Not Applicable][*specify*]
- (xiii) Name(s) and address(es), to the extent known to the Issuer, of the Placers in the various countries where the offer takes place: [None known to the Issuer][*specify*]
[If the Issuer is unaware of the identity of the Placers then insert "none known to the Issuer". Otherwise insert the names (and addresses) of those that are known and include the following reference "(other Placers may become involved but as at the date of these Final Terms these are the only ones known to the Issuer)"]

Notes:

* Delete if the minimum denomination is at least €100,000

** Delete if the minimum denomination is less than €100,000

ESFIL - ESPÍRITO SANTO FINANCIÈRE S.A.

History

ESFIL - Espírito Santo Financière S.A. (**ESFIL**) is a limited liability company (*société anonyme*) incorporated under Luxembourg law on 23 December 1993 for an unlimited duration. ESFIL is a wholly owned subsidiary of Espírito Santo Financial Group S.A. (**ESFG** or the **Guarantor**). The registered office and principal place of business of ESFIL is located at 21/25 Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg and its telephone number is +352 437-227. ESFIL is registered with the Luxembourg Register of Commerce and Companies under number B-46.338.

Business

The principal activity of ESFIL is the acquisition of interests in other Luxembourg or foreign companies and investment in industrial or trading companies. It also participates in the organisation and development of industrial or trading companies by granting assistance to such companies in the form of loans, guarantees or in any other way. In particular, ESFIL holds the Guarantor's interests in Banque Privée Espírito Santo, S.A., an asset management company based in Lausanne, and the Guarantor's interest in Banque Espírito Santo et de la Vénétie, S.A., a small bank based in Paris. ESFIL is also engaged in the financing of Espírito Santo International S.A. and certain of its subsidiaries' long-term investments.

Directors

Details of each of the directors of ESFIL (being all members of ESFIL's administrative, management or supervisory bodies) and their positions are set out in the table below accompanied by their principal outside activities.

<u>Name</u>	<u>Position</u>	<u>Principal Outside Activities</u>
José Manuel da Fonseca Antunes	Chairman	-
Jorge Manuel Amaral Penedo	Director	Director of BEM, SGPS, S.A., Controlled Sport (Portugal) – Turismo, Cinagética e Agricultura S.A., Esconcessões, SGPS, S.A., Escopar, SGPS, S.A., Espírito Santo Industrial (Portugal) - SGPS, S.A., Espírito Santo Industrial S.A., Espírito Santo Property S.A., Espírito Santo Resources (Portugal) S.A., Gestres – Gestão Estratégica Espírito Santo, S.A. and Suliglor – Imobiliária do Sul, S.A. and Manager of Euro Americian Finance S.A.
João Manuel Baptista do Nascimento Bruno	Director	-
Jean-Luc Schneider	Director	-

The Directors' current business addresses are as follows:

Name	Current business address
José Manuel da Fonseca Antunes	1, Rue Schiller, 2519 Luxembourg
Jorge Manuel Amaral Penedo	Rua de São. Bernardo 62, 1249-092 Lisbon, Portugal
João Manuel Baptista do Nascimento Bruno	21/25, Allée Scheffer, 2520 Luxembourg
Jean-Luc Schneider	35, Avenue de Montchoisi, 1006 Lausanne, Switzerland

The Directors of ESFIL believe that, save as described above under the heading "Principal Outside Activities", no director has any potential conflict of interest between his duties to ESFIL and his private interests and/or other duties.

ESPÍRITO SANTO FINANCIAL GROUP S.A.

Espírito Santo Financial Group S.A. (ESFG) is a limited liability company (*société anonyme*) incorporated under Luxembourg law on 28 November 1984 for an unlimited duration. ESFG is a financial holding company, holding and administering participating interests in other companies. It does not conduct business of its own. The registered office and principal place of business of ESFG is located at 21/25 Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg and its telephone number is +352 437-227. ESFG is registered with the Luxembourg Register of Commerce and Companies under number B-22.232.

Introduction

The ESFG Group's origins date from 1869, when José Maria de Espírito Santo Silva founded a bank in Lisbon, which was BES' predecessor. In the 1930s, the Espírito Santo family acquired a significant shareholding in Tranquilidade. After the Second World War, BES became one of Portugal's largest commercial banks and Tranquilidade became one of its leading insurance companies. In 1975, the Portuguese government nationalised virtually all institutions in the domestic banking and insurance industries, including BES and Tranquilidade. The Espírito Santo family, deprived of its Portuguese base, began new operations outside Portugal, primarily in the financial services industry, and in 1984, ESFG was established.

In 1986, when the Portuguese government enacted legislation which once again permitted the private ownership of financial services companies, the ESFG Group recommenced its operations in Portugal through Banco Internacional de Crédito, S.A. (BIC) and BESI. In the same year, the Portuguese government began a programme of privatising state-owned companies which they had previously nationalised, including many in the financial services sector. In association with Crédit Agricole, a major French financial services group, and other investors, ESFG acquired control of Tranquilidade and BES between 1990 and 1992. In order to maximise its resources and gain access to additional sector know-how, the ESFG Group has made its primary investments in these companies primarily in association with strategic partners which have assisted the ESFG Group in formulating its strategy, particularly in connection with the development and marketing of products in the retail sector.

Currently, ESFG is a Luxembourg based financial holding company with banking, insurance and healthcare interests. It is the parent company of an integrated and internationally diversified financial services group with primary investments located in Portugal, as well as in countries with cultural and economic ties with Portugal, most of them with high growth potential (including Angola, Brazil and Mozambique). The GDP of Angola and Brazil is forecasted by the IMF to grow in 2012 by in excess of 10 per cent. and around 3 per cent., respectively.

In addition, it has other investments in Spain, the United Kingdom, France, Switzerland, Poland, India, Libya, Panama, the United States, Dubai and Venezuela, among others. The ESFG Group had consolidated assets of EUR 84.0 billion as at 31 December 2011, EUR 86.5 billion as at 31 December 2010 and EUR 85.3 billion as at 31 December 2009; and the ESFG Group had consolidated equity (attributable to equity holders of ESFG) of EUR 1.3 billion as at 31 December 2011, EUR 1.3 billion as at 31 December 2010 and EUR 1.6 billion as at 31 December 2009. Consolidated net income (attributable to equity holders of ESFG) was EUR 121.4 million in 2011, EUR 136.7 million in 2010 and EUR 157.5 million in 2009.

Principal activities and markets

The ESFG Group is engaged principally in three business areas, banking, insurance and healthcare services, and its operations are concentrated mainly in Portugal. Banking activities comprise commercial banking, investment banking, asset management and private banking, stockbrokerage and others. Insurance activities comprise life insurance, non-life insurance and direct insurance. Healthcare services include hospitals, outpatient clinics and senior care residences.

The ESFG Group's assets in Portugal accounted for 69.5 per cent. of its total consolidated assets as at 31 December 2011 and for 70.3 per cent. of its total consolidated assets as at 31 December 2010. For the year ended 31 December 2011, the ESFG Group derived 2.5 per cent. of its consolidated net profit, before non-controlling interest, from its operations in Portugal and for the year ended 31 December 2010, the ESFG Group derived 74.1 per cent. of its consolidated net profit, before non-controlling interest, from its operations in Portugal, and in each case after intra-group eliminations.

The ESFG Group's principal operations outside of Portugal are focused on the strategic triangle comprised of Iberia, South America and Africa, which are considered to be high growth countries with cultural or trade links to Portugal. The ESFG Group's international operations contributed net profit before non-controlling interest of EUR 254.0 million for the year ended 31 December 2011 and EUR 174.3 million for the year ended 31 December 2010, compared with a Portuguese domestic contribution to net profit before non-controlling interest of EUR 6.5 million for the year ended 31 December 2011 and EUR 499.8 million for the year ended 31 December 2010. International operations at BES contributed positively to consolidated net income (as at 31 December 2011, international income reached EUR 160.8 million, a reduction of 21 per cent. year-on-year including international fees and commissions which fell 3.3 per cent. year-on-year to EUR 190.4 million).

The ESFG Group had net interest income of EUR 1.2 billion in 2011, EUR 1.2 billion in 2010 and EUR 1.2 billion in 2009. It generated a profit before non-controlling interest of EUR 260.4 million in 2011, EUR 674.2 million in 2010 and EUR 580.7 million in 2009.

Banking

The ESFG Group conducts its banking activities, including commercial banking, investment banking, asset management and private banking, stockbrokerage and others, primarily through the BES Group. The BES Group is the second largest private financial institution in Portugal by total consolidated assets and the largest Portuguese financial institution by market capitalisation (EUR 2 billion as of 31 December 2011). Headquartered in Portugal, with an average market share in the Portuguese banking market of 19.3 per cent. and an average market share in the Portuguese corporate banking market of 24.8 per cent. in 2011, the BES Group is one of the leading banking groups in Portugal offering individual and corporate customers a wide range of banking and financial services.

Commercial Banking: In addition to the BES Group, the ESFG Group conducts commercial banking activities through its French banking operations, Banque Espírito Santo et de la Vénétie, S.A. (BESV) and also through ES Bank (Panama) S.A. (ESBP), among others.

Investment Banking: The ESFG Group's investment banking business is managed primarily through Banco Espírito Santo de Investimento, S.A. (BESI), a wholly owned subsidiary of BES, operating in Portugal, Spain, Brazil, the United Kingdom, the United States, Poland and India.

Asset Management and Private Banking, Stockbrokerage: The ESFG Group's asset management and private banking activities are operated through ESAF – Espírito Santo Activos Financeiros, SGPS, S.A. (ESAF), Banque Privée Espírito Santo S.A. (BPES) and ES Bankers (Dubai) Limited (ESBD), based in Portugal and Spain, Switzerland and Dubai, respectively. The ESFG Group conducts its stockbrokerage activities through BESI in Portugal and through branches of BESI in Spain and Poland, through BESI's Brazilian subsidiary BES Investimento do Brasil, S.A., in which Banco Bradesco, S.A. (Bradesco) holds a 20 per cent. stake. The ESFG Group conducts its private banking activities in the United States through Espírito Santo Bank (of Miami). In the United Kingdom, BESI acquired in November 2010 a 50.1 per cent. stake in Execution Holdings Limited (Execution Noble), a London based financial brokerage group, through which stockbrokerage activities are carried out.

Insurance

The ESFG Group conducts its Portuguese and Spanish insurance business in the:

- Portuguese non-life non-*bancassurance* segment, through Companhia de Seguros Tranquilidade, S.A. (Tranquilidade) and Seguros Logo, S.A. (LOGO);
- Portuguese life non-*bancassurance* segment, through T-Vida, Companhia de Seguros, S.A. (T-Vida);
- Portuguese life insurance business in the *bancassurance* segment, through BES Vida, Companhia de Seguros, S.A. (BES Vida) and its Portuguese non-life insurance business in the *bancassurance* segment through BES, Companhia de Seguros, S.A. (BES Seguros - in which Crédit Agricole owns a 50 per cent. interest and controls its activities). On 11 May 2012, BES completed its agreement, entered into with Crédit Agricole on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated; and
- Spanish life *bancassurance* segment, through Pastor Vida S.A. (Pastor Vida), a company in which Tranquilidade owns a 50 per cent. interest, with the remaining 50 per cent. interest being owned by Banco Pastor, S.A. ESFG has management control of Pastor Vida and it is therefore a consolidated subsidiary of ESFG. Banco Popular Español, S.A. (Banco Popular) has acquired 100 per cent. of Banco Pastor, S.A. (Banco Pastor) and Banco Popular has its own *bancassurance* operations. As a result of this change of control, the ESFG Group has the right to require Banco Pastor to purchase its interest in Pastor Vida. The timing of the purchase, and the amount to be paid, has yet to be determined by the parties.

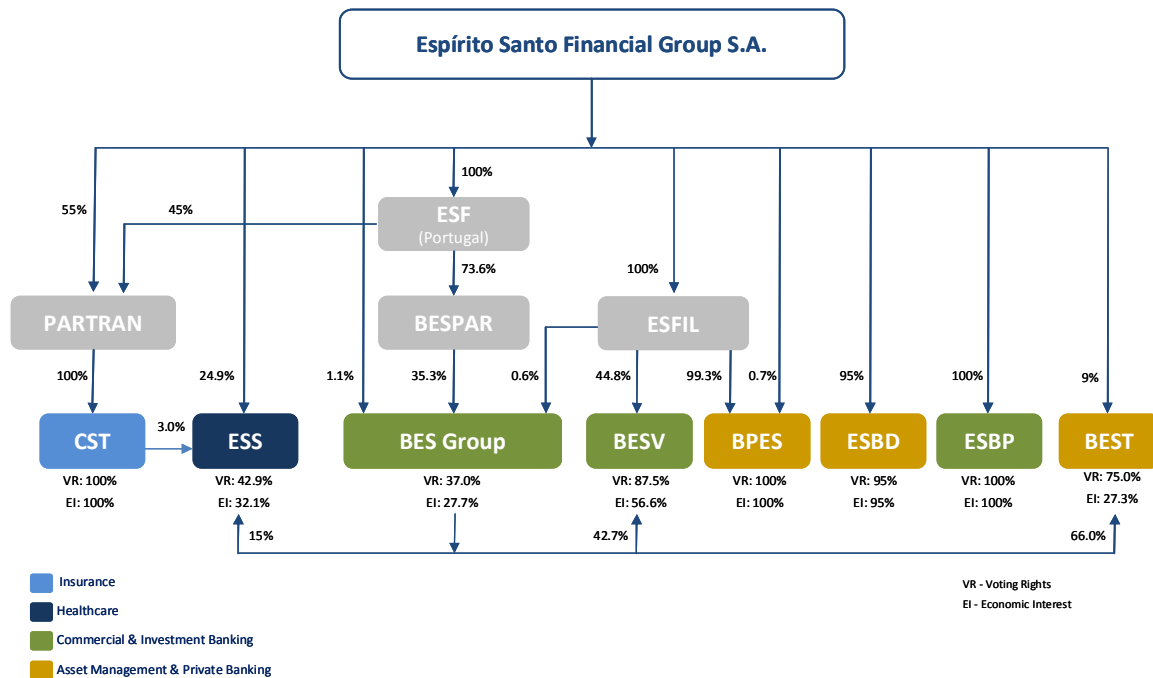
The ESFG Group holds licences to undertake non-life and life insurance operations in Mozambique and Angola, where it recently launched insurance operations. The ESFG Group plans to resume its application for an insurance licence in Libya in the near future.

Healthcare services

The ESFG Group conducts its activities in healthcare services through Espírito Santo Saúde, SGPS, S.A. (ESS) a holding company which operates principally in the following main areas of healthcare management in Portugal: hospitals, outpatient clinics and senior care residences.

Group organisational structure

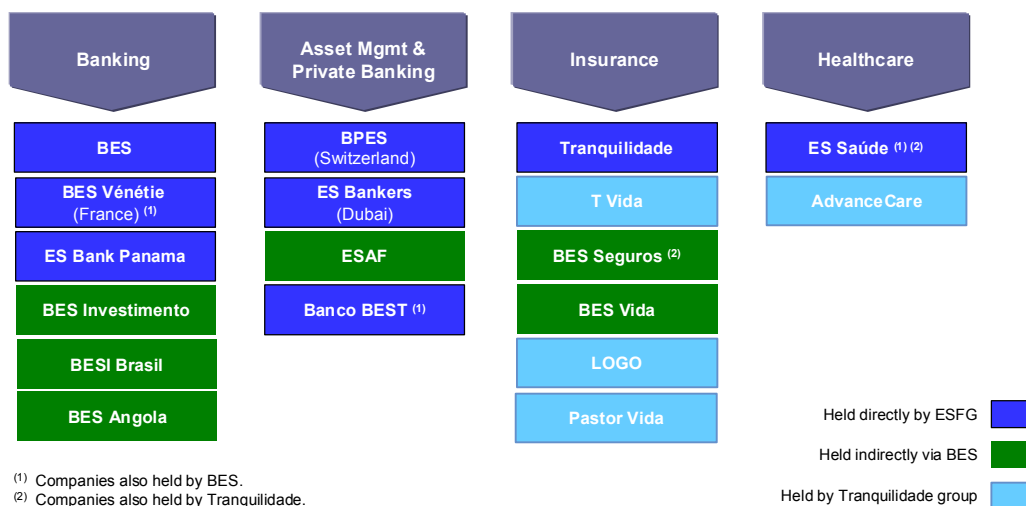
The principal organisational structure of the ESFG Group as at 21 May 2012 is set out below:



BES Group – Banco Espírito Santo S.A. and its consolidated subsidiaries
BESPAR – *BESPAR SGPS, S.A.*
BEST – *Banco Electrónico de Serviço Total, S.A.*
BESV – *Banque Espírito Santo et de la Vénétie, S.A.*
BPES – *Banque Privée Espírito Santo S.A.*
CST – *Companhia de Seguros Tranquilidade, S.A.*

ESBD – *ES Bankers (Dubai) Limited*
ESBP – *ES Bank (Panama), S.A.*
ESF (Portugal) – *Espirito Santo Financial (Portugal) SGPS, S.A.*
ESFIL – *Espirito Santo Financière S.A*
ESS – *Espirito Santo Saúde, SGPS, S.A.*
PARTRAN – *PARTRAN SGPS, S.A.*

The principal businesses and operating subsidiaries as at 21 May 2012 are set out below:



ESFG's interest in BES

The ESFG Group conducts its banking activities, including commercial banking, investment banking, asset management and private banking, stockbrokerage and others, primarily through BES and its subsidiaries.

As of 21 May 2012, ESFG held a 37.0 per cent. voting and a 27.7 per cent. economic interest in BES. Crédit Agricole is a minority investor in BES and is the ESFG Group's strategic partner in the management and operation of BES. At 31 December 2011, 36.7 per cent. of BES' ordinary shares, which are listed on NYSE Euronext Lisbon, are held by shareholders with less than 2 per cent. individually. At 31 December 2011, BES had consolidated shareholders' equity of EUR 6.2 billion (including non-controlling interest).

The ESFG Group has made most of its investments in association with partners in the financial services industry in order to maximise its resources. The ESFG Group's most significant association has been with Crédit Agricole, which in 1990 and 1991 joined with the ESFG Group in the acquisition of BES and Tranquilidade. To this end, ESFG and Crédit Agricole formed two acquisition vehicles, BESPARG and PARTRAN. ESFG acquired full control and ownership of PARTRAN in 2006. Through BESPARG, Crédit Agricole participates as a strategic partner in the management and operation of BES. In 2006 Crédit Agricole assumed management control of BES Vida and BES Seguros. The ESFG Group's association with Crédit Agricole has been mutually beneficial, in terms of profitability for the ESFG Group and introducing the ESFG Group to new financial techniques (including the *bancassurance* operations described below). The association has also enabled Crédit Agricole to gain access to the Portuguese market.

On 11 May 2012, BES completed a capital increase and issued 2,556,688,387 new ordinary shares, raising gross proceeds of EUR 1,010 million. On 11 May 2012, BES also completed its agreement, entered into with Crédit Agricole on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated. The BES Group expects the acquisition to result in a Core Tier I capital reduction of approximately EUR 140 million equivalent to a Core Tier I reduction of 22 basis points, based on the risk-weighted assets as at 31 December 2011.

BESPARG is controlled by the ESFG Group, indirectly through ESF Portugal, which held a 73.6 per cent. voting interest as of 21 May 2012.

Because the ESFG Group's interests in certain of its subsidiaries are held by one or more entities controlled by the ESFG Group, ESFG's economic interest (i.e. the percentage interest in the shareholders' equity and net income of such subsidiary after eliminating minority interests in such subsidiary and immediate ESFG Group controlled entities) in such subsidiaries is less than the ESFG Group's direct or indirect voting interest therein.

Overview of the ESFG Group's banking activities

The ESFG Group conducts a broad range of banking activities, including commercial banking, investment banking, asset management and private banking, stockbrokerage and others, primarily through the BES Group.

Based on internal studies, the ESFG Group believes that, in 2011, the BES Group had an average market share in the Portuguese banking market of 19.3 per cent., and had an average market share in the Portuguese corporate banking market of 24.8 per cent. The BES Group

calculates its average market share based on the non-weighted average of the market shares it holds in products such as deposits, individual pension plans, other financial life insurance, mutual funds, production of mortgage loans, loans to corporations, consumer loans, leasing, factoring and point of sale (traded volume). In calculating market share data, the BES Group uses relevant available official sources of information, including publications by the Bank of Portugal, the Portuguese Banks Association, the Portuguese Association of Mutual Funds (APFIN – Associação Portuguesa das Sociedades Gestoras de Fundos de Investimento) and the Portuguese Association of Insurance Companies. Where no official sources exist, the BES Group relies on its own estimates.

The BES Group accounted for 92.6 per cent. of the ESFG Group's total assets as at 31 December 2011, 93.4 per cent. of the ESFG Group's total assets as at 31 December 2010 and 94.9 per cent. of the ESFG Group's total assets as at 31 December 2009; 92.7 per cent. of the ESFG Group's commercial banking income for the 12 months ended 31 December 2011, 95.4 per cent. of the ESFG Group's commercial banking income for the 12 months ended 31 December 2010 and 95.5 per cent. of the ESFG Group's commercial banking income for the 12 months ended 31 December 2009; 70.2 per cent. of the ESFG Group's operating income as at 31 December 2011, 76.8 per cent. of the ESFG Group's operating income as at 31 December 2010 and 76.6 per cent. of the ESFG Group's operating income as at 31 December 2009 and 6.6 per cent. of the ESFG Group's net profit attributable to equity holders of ESFG for the 12 months ended 31 December 2011, 122.3 per cent. of the ESFG Group's net profit attributable to equity holders of ESFG for the 12 months ended 31 December 2010 and 97.5 per cent. of the ESFG Group's net profit attributable to equity holders of ESFG for the 12 months ended 31 December 2009, in each case after intra-group eliminations.

Since 1992, the BES Group has substantially expanded its banking network, increasing the number of BES Group branches from 230 at 31 December 1992 to 801 (domestic and international) at 31 December 2011. While the BES Group has focused on organic growth through expansion of its branch network in Portugal, it embarked on a strategic branch expansion in Spain in June 1992 when it acquired a small Spanish bank. BES currently has 25 branches in Spain, providing coverage in regional centres across the country as well as a presence along the Portugal–Spain border. Banco Espírito Santo de Angola, S.A. (BES Angola) has 36 branches in Angola. The BES Group also has 10 representative offices for residents abroad. The BES Group's international operations accounted for 36.8 per cent. of the BES Group's commercial banking income as at 31 December 2011.

Commercial banking

Commercial banking consists of the ESFG Group's banking business with retail, corporate and private banking customers, and includes its mortgage business. The ESFG Group is active primarily in Portugal, Spain, the United States, Angola and Venezuela through BES' international branches, subsidiaries and representative offices, and separately in France and Panama.

The ESFG Group's commercial banking operations in Portugal are conducted primarily through BES.

BES also conducts a portion of its commercial banking business through its subsidiaries, namely, Banco Espírito Santo dos Açores, S.A. (BAC) (corporate banking in the Azores Islands), Banco Espírito Santo do Oriente, S.A. (BES Oriente) (private and corporate banking in Macao), Espírito Santo Bank (ESB) (private and corporate banking in the United States) and BES Angola (corporate banking in Angola).

The ESFG Group's corporate and retail customer base is diverse and is comprised of large Portuguese corporations, Portuguese subsidiaries of foreign corporations, public sector institutions, small- to medium-sized Portuguese businesses and individuals.

The ESFG Group has broadened its corporate and retail customer base over the last decade resulting in the expansion in loans to individuals, including mortgages and consumer credit during that period. In the third quarter of 2010 the ESFG Group initiated a deleveraging plan with the aim of reducing its consolidated loans portfolio. As at 31 December 2011 the ESFG Group's gross consolidated loan portfolio had fallen year-on-year by 2.0 per cent. to EUR 54.1 billion from EUR 55.2 billion as at 31 December 2010.

The ESFG Group's gross consolidated domestic (non-cross border) loan portfolio amounted to EUR 36.6 billion as of 31 December 2011 and was directed to the following principal business sectors: real estate – mortgage loans 28.8 per cent., consumer credit and other loans 5.4 per cent. and corporate credit 65.8 per cent. As at 31 December 2011, total gross international loans amounted to EUR 15.9 billion and were directed to the following principal business sectors: real estate – mortgage loans 6.0 per cent., consumer credit and other loans 5.2 per cent. and corporate credit 88.8 per cent.

Corporate loans accounted for 72.7 per cent. of total gross loans at 31 December 2011, while loans to individuals represented 27.3 per cent. of total gross loans at 31 December 2011.

As at 31 December 2011 loans to customers who are not resident in Portugal reached 30.2 per cent. against 30.7 per cent. at 31 December 2010 were close to 30.0 per cent. of the ESFG Group's consolidated loans. These loans are extended through, but are not limited to, BES' overseas branches (London, New York, Nassau, Cayman Islands, Madeira-offshore), BESV in France, ESBP in Panama, BPES in Switzerland, ESFIL in Luxembourg, BES Oriente in Macao, ESB in the United States, ESD in Dubai and BES Angola. Most of the trade finance lending is conducted through these entities.

Investment banking

The ESFG Group conducts its investment banking operations in Portugal through BESI, a wholly owned subsidiary of BES. BESI's investment banking and advisory activities focus on Portugal, Spain, Brazil (through BESI's Brazilian subsidiary BES Investimento do Brasil, S.A., in which Banco Bradesco, S.A. holds a 20 per cent. stake), the United Kingdom, the United States, Poland and India. BESI's primary investment banking and advisory activities include project finance, corporate restructurings, privatisation work, primary and secondary market securities trading, brokerage and underwriting of equity and debt issues.

As at 31 December 2011, total consolidated assets of BESI decreased to EUR 6.6 billion and net profit decreased to EUR 9.1 million. BESI had total consolidated assets of EUR 7.0 billion at 31 December 2010 and a net profit of EUR 60.0 million for the 12 months ended 31 December 2010.

Asset management and private banking

The ESFG Group carries out asset management activities mainly through three operations, ESAF in Portugal and Spain (fund management, with total assets under management equal to EUR 15.5 billion as at 31 December 2011, amounting to a decrease of 13.4 per cent. year-on-year), BPES in Switzerland (private banking with total assets under management equal to EUR 3.8 billion as at 31 December 2011, basically unchanged from 2010 year-on-year) and ESD in Dubai (private banking, with total assets under management equal to EUR 0.8 billion as at 31 December 2011, amounting to a decrease of 15.4 per cent. year-on-

year). Private banking activities are also carried out at BES (with total assets under management and assets under custody equal to EUR 7.1 billion as at 31 December 2011, amounting to a decrease of 10.1 per cent. year-on-year).

At 31 December 2011, the ESFG Group held a 90.0 per cent. voting and a 23.8 per cent. economic interest in ESAF, whose subsidiaries are involved in various fund management activities, and 95 per cent. voting and economic interest in ESBD.

Outside Iberia, the ESFG Group conducts private banking activities principally through BPES, a wholly owned portfolio management company established in Switzerland in 1975 under the name of Compagnie Financière Espirito Santo. BPES' income primarily comprises management commissions, transaction fees income from foreign exchange transactions and lending activities.

ESBD is a private banking and wealth management operation incorporated in Dubai and operating in the Dubai International Financial Centre. ESBD's activities include asset and cash management, leverage and credit facilities, investment and advisory services, securities trading, structured products, investment funds, alternative investments and investment banking. ESBD is also able to offer shariah compliant investments.

Assets under management at ESFG Group amounted to approximately EUR 27.1 billion (of which ESAF amounted to EUR 15.5 billion, BPES amounted to EUR 3.8 billion, BES private banking amounted to EUR 7.1 billion (including assets under custody) and ESBD amounted to EUR 0.8 billion) as at 31 December 2011.

Insurance

As at 31 December 2011 the ESFG Group's wholly owned insurance operations which include Tranquilidade, T-Vida and LOGO, taken together with the ESFG Group's 50 per cent. interest in BES Vida and BES Seguros were, together, the fourth largest insurance group in Portugal in terms of gross written premiums (representing a 6.7 per cent. market share – 4.6 per cent. in life insurance and 10.5 per cent. in non-life insurance), according to the APS and the third largest private insurance group in terms of gross written premiums according to the APS. The ESFG Group conducts its Spanish life insurance business in the *bancassurance* segment through Pastor Vida S.A. (Pastor Vida), a company in which Tranquilidade owns a 50 per cent. interest, with the remaining 50 per cent. interest being owned by Banco Pastor, S.A. ESFG has management control of Pastor Vida and it is therefore a consolidated subsidiary of ESFG. Banco Popular Español, S.A. (Banco Popular) has acquired 100 per cent. of Banco Pastor, S.A. (Banco Pastor) and Banco Popular has its own *bancassurance* operations. As a result of this change of control, the ESFG Group has the right to require Banco Pastor to purchase its interest in Pastor Vida. The timing of the purchase, and the amount to be paid, has yet to be determined by the parties. At the ESFG Group consolidated level, after intra-group eliminations, these insurance companies accounted for 2.2 per cent. of ESFG's total assets as at 31 December 2011 and 2.1 per cent. of ESFG's total assets as at 31 December 2010, (18.7) per cent. of the ESFG Group's profit before taxes and non-controlling interest for the 12 months ended 31 December 2011 and 2.3 per cent. of the ESFG Group's profit before taxes and non-controlling interest for the 12 months ended 31 December 2010.

The ESFG Group's three pillars of insurance operations include product offerings with prices adjusted to risks to take into account individual and corporate customers' needs, a customer services function (which includes a claims management system and other tools) and an extensive distribution network (which includes professional agents and own branches).

Since it acquired control of Tranquilidade in 1990, the ESFG Group has achieved substantial growth in its insurance business, including due to a conservative policy on investments in assets. Prior to the formation of Tranquilidade-Vida in 1994 (renamed BES Vida in 2006), Tranquilidade conducted both the ESFG Group's life insurance business and its non-life insurance business. In 1994, the ESFG Group's life insurance business was transferred to this new entity. In part based on the experience of Crédit Agricole in France, the ESFG Group has been able to expand its activities by using BES' branch network to distribute life and non-life *bancassurance* products and by implementing policies to increase efficiency and enhance cost reduction.

According to the figures published by APS, at 31 December 2011, Tranquilidade, LOGO, BES Seguros, BES Vida and T-Vida achieved an overall market share of 6.7 per cent. in the Portuguese insurance market (4.6 per cent. in life insurance and 10.5 per cent. in non-life insurance), based on gross written premiums. According to the APS, the Portuguese insurance market decreased 28.2 per cent. in 31 December 2011 with a decrease of 38.0 per cent. in life and a decrease of 2.3 per cent. in non-life. According to the figures published by APS, at 31 December 2010, Tranquilidade, LOGO, BES Seguros, BES Vida and T-Vida achieved an overall market share of 12.1 per cent. in the Portuguese insurance market (12.8 per cent. in life insurance and 10.1 per cent. in non-life insurance), based on gross written premiums.

Non-life insurance

Tranquilidade conducts its private and commercial business (comprising accident and health, fire and other damage, motor, marine and third party liability insurance) via non-banking channels, while BES Seguros markets its products primarily through the branch networks of BES.

Tranquilidade reported individual net income for the 12 months to 31 December 2011 of EUR 33.9 million, a rise of 192.2 per cent. Financial results rose 50.2 per cent. to EUR 41.9 million in the period. Technical results (which includes the balance of income and expenditure allocated to the insurance business, including provisions on expected variations on future losses) rose by 17.3 per cent. to EUR 60.3 million in the same period. Tranquilidade's market share rose from 7.8 per cent. at 31 December 2010 to 8.2 per cent. at 31 December 2011.

Tranquilidade reported net individual income for the 12 months to 31 December 2010 of EUR 11.6 million, a rise of 26.2 per cent. Technical results (which includes the balance of income and expenditure allocated to the insurance business, including provisions on expected variations on future losses) fell 23.3 per cent. to EUR 51.4 million in the same period. Tranquilidade's market share rose from 7.5 per cent. at 31 December 2009 to 7.8 per cent. at 31 December 2010. Tranquilidade's solvency margin increased from 573 per cent. as at 31 December 2010 to 690 per cent. as at 31 December 2011.

As of 31 December 2011, Tranquilidade's direct insurance claims ratio was 66.1 per cent. as compared to 60.6 per cent. as of 31 December 2010. As of 31 December 2011, Tranquilidade's combined ratio stood at 101.8 per cent. as compared to 104.9 per cent. as of 31 December 2010. In addition, in 2011, Tranquilidade continued to benefit from improvement in claims management in motor and workers compensation. In the 12 months of 2011, operating costs decreased by 3.5 per cent. backed on reductions in external services a decrease of 3.5 per cent. from the previous period and a decrease of 8.4 per cent. from the previous period following the ongoing cost reduction programme, which began in 2007. Tranquilidade's general and personnel expenses decreased from EUR 30.3 million and EUR 41.5 million in 2007 to EUR 21.1 million and EUR 36.1 million, respectively. External services decreased by 30.1 per cent. in the period. Tranquilidade reported return on assets of

EUR 41.9 million as at 31 December 2011, an increase of 50.0 per cent. year-on-year, yielding an average return on assets of 5.7 per cent.

As of 31 December 2011, Tranquilidade's non-life distribution network included 435 tied agents, 1,389 multi-brand agents and 85 brokers. As of 31 December 2011, Tranquilidade's gross written premiums (i) through tied professional agents amounted to EUR 73.5 million (representing a 5 per cent. year-on-year increase), (ii) through multi-brand agents amounted to EUR 122.7 million (representing a 6 per cent. year-on-year increase) and (iii) through brokers amounted to EUR 75.6 million (representing a 5 per cent. year-on-year increase). As of 31 December 2011, Tranquilidade's aggregate gross written premiums amounted to EUR 338.0 million (representing a 3.2 per cent. year-on-year increase). Sustained growth in the number of professional agents (which number includes tied and multi-brand agents) enabled Tranquilidade to gain market share in the non-life business and maintain its profitability.

In 2010 and 2011, Tranquilidade significantly expanded its geographical coverage of Portugal and continued to expand its franchise business. At 31 December 2011, Tranquilidade's distribution network consisted of 1,700 points of sale (including 38 branches of Tranquilidade and 79 franchise shops). As at 31 December 2010, Tranquilidade's distribution network consisted of 1,588 points of sale (including 38 branches of Tranquilidade and 74 franchise shops).

Tranquilidade is also active in the *assurfinance* business, which involves selling products such as mortgage loans, personal loans and current accounts through selected agents. At the end of 2010 and 2011, Tranquilidade's *assurfinance* programme accounted for 19.0 per cent. of new customers of BES.

LOGO, the direct telephone and internet based insurer, established in January 2008, reached 120,183 customers in its first four years of operation as of 31 December 2011. As at 31 December 2011 and for the year then ended, gross written premiums amounted to EUR 23.4 million (a 17.0 per cent. increase from the previous year). As at 31 December 2010, and for the year then ended, gross written premiums amounted to EUR 20.0 million. As at 31 December 2011, net income was at a EUR 4.3 million loss, which represents a 46.3 per cent. improvement over the same period in 2010, mainly due to a reduction in operating costs of 10.1 per cent., and the claims ratio 8.9 per cent., year-on-year. Growth in both customers and premiums remain strong; though net results continue to be negative, due in part to the necessity to reach a minimum share of customers and a higher claims ratio associated with new clients, but also while the initial establishment costs are being amortised. Such amortising is expected to continue until the end of 2012. Financial results decreased 69.7 per cent. to EUR 0.3 million in 2011. LOGO's solvency margin increased from 103 per cent. as at 31 December 2010 to 105 per cent. at 31 December 2011. Technical results (which include the balance of income and expenditure allocated to the insurance business, including provisions on expected variations on future losses) rose by 237.9 per cent. to EUR 5.1 million in 2011.

Life insurance

T-Vida, a subsidiary dedicated to life insurance business was established in August 2006. T-Vida explores opportunities in the Portuguese life insurance market, namely in the areas of life risk and private pension plans, using non-*bancassurance* channels for marketing purposes.

T-Vida, reported a net individual income of EUR 3.0 million for the 12 month period ended 31 December 2011 and a net income of EUR 5.1 million for the 12 month period to 31 December 2010, which represents a decrease of 41.4 per cent. In the 12 months of 2011,

premiums decreased by 50.0 per cent. (excluding the EUR 71 million capitalisation in 2010). Following increased focus on deposit-taking by banks in Portugal. Risk products continued to represent T-Vida's focus in 2011. In 2011, the technical results decreased 10.7 per cent. (from EUR 8.4 million to EUR 7.5 million), mainly due to the reduction in sales of risk products (namely group risk and mortgage loans). Operating costs increased 2.9 per cent. in 2011, reflecting higher information technology and advertisement costs. In 2011, financial results decreased 13.9 per cent. to EUR 15.5 million. T-Vida's solvency margin increased from 108 per cent. as at 31 December 2010 to 131 per cent. as at 31 December 2011.

On 11 May 2012, BES completed its agreement, entered into with Crédit Agricole on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated.

The ESFG Group conducts its Spanish life insurance business through Pastor Vida in which Tranquilidade owns a 50 per cent. interest, the remaining 50 per cent. interest being owned by Banco Pastor, S.A. ESFG has management control of Pastor Vida and it is a consolidated subsidiary of ESFG. Banco Popular Español, S.A. (Banco Popular) has acquired 100 per cent. of Banco Pastor, S.A. (Banco Pastor) and Banco Popular has its own *bancassurance* operations. As a result of this change of control, the ESFG Group has the right to require Banco Pastor to purchase its interest in Pastor Vida. The timing of the purchase, and the amount to be paid, has yet to be determined by the parties.

For the year ended 31 December 2011, Pastor Vida posted a EUR 10.1 million net profit, which represents a 61.9 per cent. increase over the previous year. This performance is mainly related to an improvement in technical results (which includes the balance of income and expenditure allocated to the insurance business, including provisions on expected variations on future losses) and to the development of risk products.

Healthcare services

Over the last decade, the private healthcare sector has been growing, assisted by an increase in private healthcare insurance. According to the APS, in 2011 the Portuguese private health insurance market reached more than 2 million insured and a value (EUR 540 million in gross written premiums) with a compound annual growth rate (CAGR) of 9.0 per cent. between 2000 and 2011.

According to ESS (based on data provided by the INE and on internal projections), the fragmented private healthcare sector has a high potential to achieve EBITDA margins of between 20 per cent. and 25 per cent. in line with international benchmarks and best practices. Due to continued losses by Portuguese public hospitals and severe budget constraints, there is an expectation that public healthcare providers may open more of the public market to private operators (with four public hospitals already managed by private operators) through management agreements or other types of deal structures (such as concessions).

The ESFG Group conducts its activities in healthcare services through Espírito Santo Saúde, SGPS, S.A. (ESS), a holding company which operates principally in the following areas of healthcare management in Portugal: hospitals, outpatient clinics and senior care residences. As of 21 May 2012, ESFG held a 42.9 per cent. voting and 32.1 per cent. economic interest in ESS. Advancecare – Gestão de Serviços de Saúde S.A. (Advancecare) (comprising healthcare insurance and workers compensation), ESFG's managed care platform for healthcare insurers, provides the link between the ESFG Group's insurance and healthcare operations.

ESS is a leading private healthcare provider in Portugal which owns a total of 17 hospitals and operates a total of 18 hospitals (it operates the new Hospital Beatriz Ângelo in Loures, which opened in January 2012, through the Public–Private Partnerships (PPP) programme) as well as outpatient clinics and senior care residencies.

Operating revenues at ESS rose by 9.6 per cent. by 31 December 2011 to EUR 273.6 million from EUR 249.6 million for the year ended 31 December 2010. Operating revenues at ESS rose by 14.8 per cent. by 31 December 2010 to EUR 249.6 million from EUR 217.5 million for the year ended 31 December 2009. ESS had operating revenues of EUR 37.0 million for the year ended 31 December 2005, EUR 83.3 million for the year ended 31 December 2006, EUR 128.5 million for the year ended 31 December 2007 and EUR 187.9 million for the year ended 31 December 2008. The EBITDA and the EBITDA margin of ESS increased from EUR 37.5 million and 15.9 per cent. for the year ended 31 December 2010 to EUR 46.5 million and 17.0 per cent. as at 31 December 2011, respectively.

Individual net income (excluding non-controlling interest) rose to EUR 4.9 million by 31 December 2011 from EUR 1.5 million at 31 December 2010. Individual net income (excluding non-controlling interest) rose to EUR 1.5 million by 31 December 2010 from a EUR 3.4 million loss at 31 December 2009. The margin (net income to revenues) of ESS increased from 0.6 per cent. as at 31 December 2010 to 1.8 per cent. as at 31 December 2011.

Hospital da Luz, the largest private hospital in Portugal and a key investment at ESS, saw revenue growth up by 8.1 per cent. in 2011 and up by 14.0 per cent. in 2010. Between 2000 and 2011 ESS has reported a yearly compounded annual growth rate of approximately 40 per cent. measured by operating revenues.

Esumédica - Prestação de Cuidados de Saúde, S.A. (Esumédica) was launched in 1994 as a provider of occupational safety, hygiene and health services to ESFG Group companies. Esumédica gradually evolved into a provider of services to a wider market. Currently, Esumédica provides its services to approximately 500 clients. After acquiring 100 per cent. ownership of Esumédica, Tranquilidade implemented a new strategic plan, aiming to improve profitability levels and to maximise synergies with other ESFG Group companies.

Europ Assistance – Companhia Portuguesa de Seguros S.A. (Europ Assistance) was founded in 1993 as a provider of assistance insurance services. Currently, Tranquilidade holds a 47.0 per cent. interest in Europ Assistance. As at 31 December 2011, Europ Assistance was the market leader in the Portuguese assistance insurance by gross written premiums according to the IPS.

ESS represents a relatively new profit stream for the ESFG Group. ESS also provides cross-selling opportunities to staff, typically belonging to an affluent segment (such as physicians, nurses and senior citizens) and developing operations for connected services (such as leasing, payments, financing, ATM and credit cards among others).

Since its establishment, ESS has been continuously consolidating its position in the Portuguese healthcare sector through acquisitions and launch of new projects. The implementation of high service standards in state-of-the-art units and good relationships with insurance providers and within the Portuguese healthcare system, enabled ESS to become an alternative to the public healthcare system and a private provider of a broad range of healthcare services. ESS' experienced management and medical staff, who apply best management practices and quality standards in their operations, have been key to the improved profitability of the ESS' acquired businesses and new projects. ESS is continuously focused on adapting to changing market conditions.

ESFG Capital positioning

ESFG is supervised on a consolidated basis by the Bank of Portugal as the majority of the ESFG Group's activities are conducted in Portugal.

- At 31 December 2011, the ESFG Group's Core Tier I ratio and Tier I ratio were 8.3 per cent. and 8.6 per cent., respectively, calculated under the Basel II, IRB Foundation Method.
- At the BES Group level, Core Tier I ratio and Tier I ratio were 9.2 per cent. and 9.4 per cent., respectively, under the Basel II, IRB Foundation Method at 31 December 2011.

ESFG successfully completed the 2011 EU-wide stress test conducted by the EBA, the EC and the European Systemic Risk Board. The assumptions and methodologies were established to assess banks' capital adequacy against a 5 per cent. Core Tier I capital benchmark. The adverse stress test scenario was set by the ECB and covered a two year horizon. The stress test has been carried out using a static balance sheet assumption as at 31 December 2010.

In May 2011, following the Portuguese government's request for assistance and the signing of the Memorandum of Economic and Financial Policies (MEFP) between the Portuguese government, the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), the Bank of Portugal published Notice 3/2011 under which new minimum levels of Core Tier I capital for Portuguese regulated banking institutions were set at 9 per cent. by 31 December 2011 and 10 per cent. by 31 December 2012.

The Bank of Portugal and the ECB, in consultation with the EC and the IMF, established clear periodic target leverage ratios that required Portuguese banks to develop institution specific medium-term funding plans by 30 June 2011 to achieve a stable market-based funding position. The ECB, the EC and the IMF, collectively known as the "Troika", will make, from time to time, periodic reviews of banking activities in Portugal. The increase in supervision resulting from the Stabilisation Programme may result in ESFG facing the need to increase its capital base further or to restrict its policy regarding earnings distribution. Additionally, the ESFG Group may also be subject to additional constraints on the way it manages assets and liabilities and may be affected by the triggering of public recapitalisation mechanisms (which are subject to conditions) specifically provided for by the Stabilisation Programme.

On 15 July 2011 the Bank of Portugal announced the results of the EU-wide stress test for 2011 conducted by the EBA, the EC and the European Systemic Risk Board. The results calculated for the ESFG Group, based on the assumptions and methodology defined by the EBA, confirmed a Core Tier I ratio of 5.8 per cent. in 2012 under the adverse scenario, after taking account of divestments and other management action taken by 30 April 2011, compared to 6.4 per cent. as of the end of 2010.

On 27 October 2011, ESFG announced that it had received a statement from the Bank of Portugal that, among other things:

- in light of the substantial increase in systemic risk triggered by the sovereign debt crisis in the Euro area and after careful evaluation, at market value, of sovereign debt as at 30 September 2011, it was decided that the banking groups subject to the EBA

stress tests should strengthen their levels of capital in order to reach, by 30 June 2012, a Core Tier I capital ratio of 9 per cent.; and

- the total amount of capital identified as needed for the ESFG Group was EUR 1.487 billion, with EUR 44 million resulting from the evaluation at market prices of its exposure to sovereign debt.

On 8 December 2011, ESFG announced that it had received a statement from the EBA that stated, among other things:

- in light of the decision that the banking groups subject to the EBA stress tests should strengthen their levels of capital and following the completion of the capital exercise conducted by the EBA in close cooperation with the Bank of Portugal, it was determined that ESFG had a capital shortfall of EUR 1.597 billion (with EUR 121 million resulting from the evaluation at market prices of exposure to sovereign debt) which must be addressed by the end of June 2012; and
- ESFG would ensure that it would adhere to the Core Tier I capital ratio of 9 per cent. by the end of June 2012, and it would submit a plan to the Bank of Portugal by 20 January 2012, setting out the proposed action to be taken by ESFG to meet that Core Tier I capital ratio of 9 per cent. target by the end of June 2012 and to bring the capital shortfall to zero.

At 31 December 2011, the ESFG Group's Core Tier I ratio, calculated under the Basel II, IRB Foundation Method, was 8.3 per cent.

On 10 January 2012, the Bank of Portugal, taking into account the results of the EBA stress test, published Notice 5/2012 under which it confirmed the new minimum level of the Core Tier I capital ratio, set at 9 per cent., to be achieved by 30 June 2012.

On 1 March 2012, ESFG announced the results of the SIP as follows:

- The Bank of Portugal announced on 1 March 2012 the completion of the third and final stage, and global results, of the SIP, the programme undertaken as part of the measures and actions agreed by the Portuguese authorities for its financial system within the framework of the Programme of Economic and Financial Assistance agreed with the IMF/EU/ECB in May 2011.
- The SIP covered eight of the largest Portuguese banking groups, including ESFG. The first two stages and respective results were published on 16 December 2011.
- The objective of the third stage of the SIP was to evaluate the adequacy of the parameters and methodologies used by the banking groups in their respective financial projections that supported future solvency forecasts, which were undertaken within the framework of the "Stress Tests" exercises.
- The evaluation undertaken confirmed that ESFG's parameters and methodologies were "clearly adequate", the highest classification attributable under stage 3 of the SIP.
- With regard to measures that warrant further improvement, ESFG will establish and present its implementation plan to the Bank of Portugal in the short term, in the context of the ESFG Group's continued improvement process.

On 11 May 2012, BES completed its capital increase and issued 2,556,688,387 new ordinary shares, raising gross proceeds of EUR 1,010 million. It is estimated that as a result of the capital increase BES has raised its Core Tier I capital ratio from 9.21 per cent. to 10.75 per cent. (an increase of 154 basis points), based on risk weighted assets as at 31 December 2011 (and all other things remaining constant), above both the minimum Core Tier I capital ratio of 9 per cent. required by the EBA by 30 June 2012 and the minimum Core Tier I capital ratio of 10 per cent. required by the Bank of Portugal by 31 December 2012.

On 11 May 2012, BES also completed its agreement, entered into with Crédit Agricole on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated. The BES Group expects the acquisition to result in a Core Tier I capital reduction of approximately EUR 140 million equivalent to a Core Tier I reduction of 22 basis points, based on the risk-weighted assets as at 31 December 2011.

On 26 April 2012, ESFG issued 102,040,816 New Shares. ESFG has applied the proceeds from the issue of the New Shares to strengthen its Core Tier I capital on a consolidated basis and, in particular, by subscribing for ESFG's full entitlement in BES' capital increase which completed on 11 May 2012, in order for ESFG to meet the required EBA Core Tier I capital ratio of 9 per cent. by 30 June 2012 and towards meeting the Bank of Portugal Core Tier I capital ratio of 10 per cent. by 31 December 2012.

On 26 April 2012, ESFG also announced that, based on risk weighted assets as at 31 December 2011, the issue of the New Shares results in ESFG's core capital position (CET1) increasing to 9.5 per cent. (including the sovereign capital buffer required by the EBA) and to 10.0 per cent. calculated under the Basel II, IRB Foundation Method.

ESFG will continue to adopt measures in order to meet the Bank of Portugal's minimum levels of Core Tier I capital. Credit institutions that fail to comply with these minimum Core Tier I capital requirements are subject to various measures that may be imposed by the Bank of Portugal, including in respect of the ESFG Group, possible restrictions on dividends and imposition of fines and other sanctions on ESFG and/or BES.

Strategy

The ESFG Group

ESFG is a financial holding company which, through its subsidiaries, provides a wide range of banking, insurance and healthcare services in Portugal and internationally. The ESFG Group's principal operations outside of Portugal (located in Iberia, South America and Africa) primarily serve Portuguese businesses and individuals abroad.

The ESFG Group's primary strategy is to further develop its businesses through the cross-selling of the full range of banking, insurance and healthcare services offered by its subsidiaries, while taking advantage of cost reduction opportunities afforded by a more efficient integration of the ESFG Group's businesses. The ESFG Group follows a strategy of organic growth along with selective localised acquisitions in Portugal and other countries, in particular, where there are cultural affinities with Portugal which includes high-growth emerging economies, characterised as natural resource-rich, with high liquidity pools and ambitious infrastructure development programmes.

The ESFG Group's strategy encourages greater revenue growth from its international operations outside of Portugal, supporting Portuguese companies and individuals in their

efforts to generate business abroad. The ESFG Group's principal focus is in Iberia, South America and Africa (collectively referred to as the "strategic triangle") as well as operations in other developed and emerging markets. The ESFG Group will continue to develop strategies to ensure that it will continue to play a major role in banking, insurance and healthcare in the future in the markets in which it operates.

Banking

ESFG's principal aims for its banking subsidiaries are to increase their profitability, market share and productivity, while maintaining a solid position in terms of solvency and liquidity ratios, adequate loan quality and a conservative provisioning policy in respect of overdue loans. It also seeks to improve asset quality while maintaining a strict policy with respect to its loan to deposit ratio.

At the beginning of the second half of 2010, the Board of Directors of BES decided to implement initiatives to:

- *Increase long term profitability via the international business*

BES' international presence in strong growth emerging economies is a key factor in driving further profitable growth. For the year ended 31 December 2011, the BES international business accounted for 36.8 per cent. of consolidated commercial banking income, a decrease of 1.2 per cent. for the year ended 31 December 2010. Within the international business, the strategic triangle comprising Iberia, South America and Africa accounted for 75 per cent. of international business for the year ended 31 December 2011.

The Investment Banking unit is pursuing a strong internationalisation strategy, consistent with the BES Group's international presence (for the year ended 31 December 2011, total banking income amounted to EUR 238.0 million, of which 72.0 per cent. was from the international presence).

- *Deleveraging of the balance sheet, aiming to reach a 120 per cent., loan to deposit ratio by 2014*

As at 31 December 2011, there was a total reduction of EUR 2.8 billion of BES Group's total assets. Customer deposits increased 11 per cent. year-on-year to EUR 34.2 billion as at 31 December 2011 (an increase of EUR 3.4 billion). As a result of the increase in customer deposits and the reduction of loans to customers, the loan to deposit ratio decreased from 165 per cent. as at 31 December 2010 to 141 per cent. as at 31 December 2011. In the last six quarters, the BES Group's loan to deposit ratio decreased from 198.0 per cent. to 141 per cent. (according to the Bank of Portugal's instruction 23/2011) with deposits increasing by EUR 8.1 billion from EUR 26.1 billion in June 2010 to EUR 34.2 billion in December 2011 and net loans decreasing by EUR 2.6 billion from EUR 51.7 billion in June 2010 to EUR 49.0 billion in December 2011.

- *Strict monitoring of asset quality, with continued reinforcement of provision coverage with a focus on strengthening its capital position (Core Tier I ratio)*

BES' strong provision coverage 4.23 per cent. of gross loans, or EUR 2.2 billion as at 31 December 2011 and 3.38 per cent. of gross loans or EUR 1.8 billion as at 31 December 2010 provides flexibility to accommodate expected deterioration in asset quality resulting from domestic economic conditions. It has traditionally maintained resilient asset quality, with non-performing loan ratios consistently below the average of the Portuguese system. BES'

Core Tier I ratio of 9.2 per cent. as at 31 December 2011 places BES in a strong capital position, with limited sovereign exposure and strong provision buffer.

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

Through ESFG's banking subsidiaries, it also aims to improve efficiency by rationalising its structure and creating shared services, while recognising the need for technical innovation leading to greater efficiency, improved service quality and the ability to respond to new challenges.

The ESFG Group's banking businesses are located in, but are not limited to, the principal banking centres in Continental Europe (including Iberia), Brazil, Africa (including Angola, Mozambique and Libya), the United Kingdom, the United States, Panama and Dubai. The ESFG Group will continue to develop strategies that will ensure that it will continue to play a major role in banking which include the continued development of banking business outside of its traditional markets.

Insurance

ESFG's principal aim for its insurance subsidiaries is to capitalise on the ESFG Group's strengths in offering integrated financial services to its customers, satisfying their life and non-life insurance requirements. The ESFG Group's strategy through its wholly owned insurance subsidiaries ensures that their agents are able to offer insurance and banking products (through the *assurfinance* initiative between BES and Tranquilidade) to their customer base. This strategy seeks to reinforce both agent and customer loyalty through the provision of multiple products that agents of ESFG's wholly owned subsidiaries can offer customers.

The ESFG Group's wholly owned insurance operations take advantage of organic and non-organic growth opportunities in the life and non-life sectors. Growth opportunities may be provided by increasing life and non-life business in Portugal, Spain and in other regions where ESFG's insurance subsidiaries operate. Growth opportunities will also derive from the cross-selling activities afforded by the ESFG Group's *assurfinance* initiatives and, more broadly, by leveraging the *bancassurance* platforms in both life (BES Vida) as well as non-life (BES Seguros).

Healthcare services

ESFG's strategy for its healthcare services business (through Espírito Santo Saúde (ESS)) focuses on the continued growth of its hospitals, outpatient clinics and senior care residences. ESS aims to develop synergies between its various healthcare units and to expand its activities in Portugal, which include the expansion of its key hospital, Hospital da Luz in Lisbon. ESS will continue to work with the Public-Private Partnership (PPP) programme framework at the Hospital Beatriz Ângelo (which opened in January 2012). The healthcare services strategy also includes the development of cross-selling opportunities with ESS' own customers and those of ESFG's insurance and banking operations.

Competition

Banking

The ESFG Group faces intense competition in all of its principal areas of operation; however, competition in the Portuguese banking markets has the most significant effect on the ESFG Group's consolidated results of operations. The ESFG Group's competitors in the Portuguese banking markets are Portuguese commercial banks, savings and investment banks, foreign banks and non-deposit taking financial institutions (investment companies). The Portuguese banking industry has been characterised by increasing consolidation through mergers and acquisitions among the major Portuguese banks and by foreign financial institutions. Currently, the five principal banking groups in Portugal are: Caixa Geral de Depósitos, S.A., Millennium BCP Group, BES/ESFG Group, Santander Totta Group and BPI Group.

Under current law, Portuguese banks are permitted to offer all types of financial services. In addition, EU banking directives allow cross-border reciprocity within EU countries for any bank formed within the European Union.

The ESFG Group therefore faces competition in the major corporate markets and in international markets from other commercial and investment banks and financial institutions, particularly those with ties to Portugal.

Management believes that competition in the Portuguese banking industry will continue to intensify as a result of the integration of European markets, the enlargement of the European Union and economic globalisation.

The ESFG Group intends to continue to pursue opportunities for expansion through organic growth and, in appropriate circumstances, will consider the possibility of external growth by acquisition in Portugal or external markets relevant to its business.

The ESFG Group will also continue to explore opportunities to develop its banking business with particular emphasis on the Spanish, Angolan and Brazilian markets.

Insurance

In general, the insurance industry worldwide competes on the basis of the products offered, the terms of the products, the ability of the products to meet the specific needs of the insured and the quality of service rendered to the insured. The ESFG Group's primary competitors in the insurance industry in Portugal are state-controlled entities, large financial groups and foreign-owned insurers. A strong competitive environment has developed in recent years, with increasing concentration. At 31 December 2011, the seven largest life groups accounted for approximately 84.1 per cent. of the Portuguese insurance market by premiums. Nonetheless, many of the new small insurance companies are aggressively pursuing market share by means of highly competitive premium policies.

The ESFG Group's principal competitors in the insurance sector are Caixa Geral de Depósitos Group, Millennium BCP Fortis, Santander Totta, AXA, Allianz, Banif and BPI Vida.

Healthcare services

The ESFG Group's healthcare subsidiary, Espírito Santo Saúde, S.A. (ESS) operates in Portugal and primarily in the private sector. The Portuguese private healthcare sector is highly fragmented, with a large number of small practices and clinics, as well as diagnostic units, operating across the country. In Portugal there are three major healthcare groups in the

private healthcare sector, all of which are Portuguese, and ESS is currently the market leader in terms of revenues.

As a result of the current economic conditions, the market for private healthcare has been experiencing major changes at two levels, first there has been an increase in the consolidation of small practices and clinics, due to financial pressure on these businesses; and secondly due to the changes in the public healthcare sector (with the main focus on cost cutting) combined with growth in private healthcare sector, there has been an increase in the level of competition between the three major Portuguese healthcare groups. Competition has been mainly driven by clinical/technical quality, innovation and customer service.

ESFG Group's main competitors in the private healthcare sector are José de Mello Saúde and HPP Group.

Dividends and dividend policy

Since 1985 (with the exception of the financial years ended 31 December 2002 and 31 December 2011), ESFG has paid dividends to eligible shareholders.

The proposal, approval and payment of future dividends depends upon the ESFG Group's operating results, financial condition and such other factors the Board deems relevant. ESFG does not declare or pay interim dividends.

Pursuant to Luxembourg law, dividends are payable out of ESFG's statutory reporting profits and free reserves. Dividends are subject to withholding tax under Luxembourg law. See "*Taxation – Luxembourg*".

The following table sets forth total dividends declared in euro on each Share for each fiscal year indicated. Because final dividends for any given year are not formally declared as of the relevant balance sheet date, they are recorded in the succeeding year's financial statements.

Year ended 31 December,	Gross Dividend per Share
2006.....	Euro 0.57
2007.....	Euro 0.66
2008.....	Euro 0.30
2009.....	Euro 0.35
2010.....	Euro 0.28
2011.....	None

RECENT DEVELOPMENTS

Espírito Santo Financial Group S.A.

On 24 May 2012, ESFG announced its unaudited consolidated results for the three month period ended 31 March 2012, prepared in accordance with IFRS. The following is a summary of those results:

- Consolidated net income reached EUR 2.0 million in the first quarter ended 31 March 2012 compared to EUR 13.7 million for the same period in 2011.
- Consolidated commercial banking income increased by 8.9 per cent. to EUR 518.0 million (31 March 2011: EUR 475.8 million).
- Consolidated net interest income increased by 9.6 per cent. year-on-year to EUR 308.4 million (31 March 2011: EUR 281.5 million).
- Consolidated net fees and commissions increased by 7.9 per cent. year-on-year to EUR 209.6 million (31 March 2011: EUR 194.3 million) as ESFG continues to support enterprises abroad.
- Consolidated market results (being the aggregate of net gains/losses from financial assets at fair market value through profit and loss, net gains on available for sale financial assets, net gains from foreign exchange differences and net gains/losses from the sale of other assets) and other income decreased by 32.3 per cent. to EUR 106.3 million (31 March 2011: EUR 157.0 million).
- Consolidated insurance earned premiums net of reinsurance increased by 1.6 per cent. year-on-year to EUR 85.1 million (31 March 2011: EUR 83.7 million) despite competitive pressures and the weak market environment.
- Consolidated claims incurred net of reinsurance decreased by 7.9 per cent. year-on-year to EUR 68.1 million (31 March 2011: EUR 73.9 million) as claims management measures take full effect.
- Consolidated operating expenses increased by 14.7 per cent. to EUR 685.8 million (31 March 2011: EUR 597.9 million) as a result of the decision by BES to further increase provisioning charges.
- Staff costs and general administrative expenses decreased by 4.8 per cent. to EUR 308.5 million (31 March 2011: EUR 324.0 million).

The full text of the results of ESFG for the three month period ended 31 March 2012 is incorporated by reference in this document. See “*Incorporation by Reference*”.

PSI-20 Index

On 1 March 2012 the NYSE Euronext announced that ESFG shares would be included in Portugal’s PSI-20 Index from 19 March 2012.

Special Inspections Programme

On 1 March 2012, ESFG announced the results of the SIP as follows:

- The Bank of Portugal announced on 1 March 2012 the completion of the third and final stage, and global results, of the SIP, the programme undertaken as part of the measures and actions agreed by the Portuguese authorities for its financial system within the framework of the Programme of Economic and Financial Assistance agreed with the IMF/EU/ECB in May 2011.
- The SIP covered eight of the largest Portuguese banking groups, including ESFG. The first two stages and respective results were published on 16 December 2011 (see below).
- The objective of the third stage of the SIP was to evaluate the adequacy of the parameters and methodologies used by the banking groups in their respective financial projections that supported future solvency forecasts, which were undertaken within the framework of the “Stress Tests” exercises.
- The evaluation undertaken confirmed that ESFG’s parameters and methodologies were “clearly adequate”, the highest classification attributable under stage 3 of the SIP.
- With regard to measures that warrant further improvement, ESFG will establish and present its implementation plan to the Bank of Portugal in the short term, in the context of the ESFG Group’s continued improvement process.

On 16 December 2011 and 19 December 2011, ESFG announced that it had received the following statement from the Bank of Portugal for disclosure:

The Bank of Portugal announced today the first global results of the Special Inspections Programme (SIP) undertaken as part of the measures and actions agreed by the Portuguese authorities for its financial system, within the framework of the Programme of Economic and Financial Assistance agreed with the IMF/EU/ECB in May 2011.

This programme of inspections of the eight largest Portuguese banking groups, including the ESFG Group, had as its objective the validation of the information, as of 30 June 2011, on credit risk used in the valuation of these groups’ financial stability, through an independent valuation of their credit portfolios, and of the adequacy of their policies and procedures for risk management as well as confirmation of the calculation of their requirements for credit risk.

This exercise focused on the valuation of credits of EUR 44.1 billion of ESFG’s portfolio covering 86 per cent. of the ESFG Group’s total credit portfolio. This valuation concluded that there is a need to bolster the value of the individual impairment registered in the ESFG Group’s consolidated accounts by EUR 125 million. This amount represents 0.3 per cent. of the analysed global credit portfolio and 8.4 per cent. in the value of impairments registered in relation to that portfolio.

It is noted that, as of September 2011, the ESFG Group established additional impairments for the sum of EUR 21 million on the aforementioned credits.

In the context of the SIP it was also noted that there was the need to adjust the value of the risk weighted assets corresponding to an increase of 2.1 per cent. on the total amount calculated for that date. It is noted that the regulatory changes applicable after the reference date of the SIP, in particular, the changes in the legislation (CRD III), to be implemented by the end of 2011, will result in a reduction in value of risk weighted assets equivalent to

1.1 per cent. based on data as at 30 June 2011. The effect of the changes registered after 30 June 2011 have not been taken into consideration in the estimated impact of SIP on the Tier I ratio.

The combined impact of these results of the solvency evaluation of the ESFG Group, as of 30 June 2011, resulted in a slight decrease in the Tier I ratio from 8.6 per cent. to 8.3 per cent. but which remains above the 8.0 per cent. minimum level required on that date.

The amount needed for the reinforcement of the ESFG Group's capital as a consequence of the SIP recommendations, will, in accordance with the regulations of the Bank of Portugal, need to be resolved by June 2012. Consequently the amount to be included in the strategic capitalisation plan that the ESFG Group will present to the Bank of Portugal in the beginning of 2012 and in which ESFG will specify the measures it will have to take to reinforce its issued capital, will also include those deriving from the EBA exercise.

In relation to the improvements identified in the policies and procedures followed in the management of credit risk, ESFG will set up a plan for their implementation in the short term for presentation to the Bank of Portugal.

Additionally, ESFG Group advises that during the third quarter of 2011, the ESFG Group increased its credit provisions by EUR 143.4 million, which resulted in an increase in the balance sheet from EUR 2.028 billion (June 2011) to EUR 2.144 billion (September 2011). As a consequence, the ratio provisions/credit increased from 3.7 per cent. (June 2011) to 3.9 per cent. (September 2011). Of the EUR 143.4 million provisions made in the third quarter of 2011, EUR 21 million reflect the need for the additional reinforcement of provisions identified in the SIP report;

Capital Requirements

On 27 October 2011, ESFG announced that it had received the following statement for disclosure from the Bank of Portugal:

- In light of the substantial increase in systemic risk triggered by the sovereign debt crisis in the Euro area and after careful evaluation, at market value, of sovereign debt as at 30 September 2011, it was decided that the banking groups subject to the EBA stress tests should strengthen their levels of capital in order to reach, by 30 June 2012, a Core Tier I capital ratio of 9 per cent.;
- The total amount of capital identified as needed for the ESFG Group, which includes the full consolidation of BES, was EUR 1.487 billion, with EUR 44 million resulting from the evaluation at market prices of its exposure to sovereign debt;
- The remaining amount is included in the capitalisation plans presented to the Bank of Portugal, as part of the Plan of Financing Assistance, which permit regular monitorisation of the relevant capital ratios;
- This preliminary and indicative estimate may suffer an alteration based on the information relative to the end of September.

On 8 December 2011, ESFG announced that it had received a statement from the EBA that stated, among other things:

- in light of the decision that the banking groups subject to the EBA stress tests should strengthen their levels of capital and following the completion of the capital exercise

conducted by the EBA in close cooperation with the Bank of Portugal, it was determined that ESFG had a capital shortfall of EUR 1.597 billion (with EUR 121 million resulting from the evaluation at market prices of exposure to sovereign debt) which must be addressed by the end of June 2012; and

- ESFG would ensure that it would adhere to the Core Tier I capital ratio of 9 per cent. by the end of June 2012, and it would submit a plan to the Bank of Portugal by 20 January 2012, setting out the proposed action to be taken by ESFG to meet that Core Tier I capital ratio of 9 per cent. target by the end of June 2012 and to bring the capital shortfall to zero.

Bank of Portugal Notice no. 5/2012 dated 10 January 2012 confirms that institutions supervised by the Bank of Portugal such as ESFG must increase their Core Tier I capital ratios, on a consolidated basis, to not less than 9 per cent. by 30 June 2012 and 10 per cent. by 31 December 2012.

On 26 April 2012, ESFG issued 102,040,816 New Shares. ESFG has applied the proceeds from the issue of the New Shares to strengthen its Core Tier I capital on a consolidated basis and, in particular, by subscribing for ESFG's full entitlement in BES' capital increase which completed on 11 May 2012, in order for ESFG to meet the required EBA Core Tier I capital ratio of 9 per cent. by 30 June 2012 and towards meeting the Bank of Portugal Core Tier I capital ratio of 10 per cent. by 31 December 2012.

On 26 April 2012, ESFG also announced that, based on risk weighted assets as at 31 December 2011, the issue of the New Shares results in ESFG's core capital position (CET1) increasing to 9.5 per cent. (including the sovereign capital buffer required by the EBA) and to 10.0 per cent. calculated under the Basel II, IRB Foundation Method.

Banco Espírito Santo, S.A.

On 15 May 2012, BES announced its unaudited consolidated results for the three month period ended 31 March 2012, prepared in accordance with IFRS. The following is a summary of those results:

- The Eurozone financial crisis, the contraction of economic activity and domestic demand in Portugal, the sharp rise in unemployment as well as the deleveraging and capitalisation objectives set for Portuguese banks under the Economic and Financial Adjustment Programme for Portugal agreed between the Portuguese government, the EU, the ECB and the IMF, all affected the performance of the BES Group in the first quarter of 2012.
- Loan to deposit ratio increased to 135 per cent. (December 2011: 141 per cent.; March 2011: 163 per cent.). Deposits increased by EUR 1.8 billion or 5.1 per cent. in the quarter (compared to an increase by EUR 5.4 billion, or 17.7 per cent. in the first quarter of 2011), while the loan book contracted by EUR 0.2 billion quarter-on-quarter and EUR 0.7 billion (a decrease of 1.3 per cent.) year on year.
- The BES Group's financial strength was reinforced: the Core Tier I ratio increased to 9.4 per cent. (March 2011: 7.9 per cent.; December 2011: 9.2 per cent.). On 11 May 2012, BES successfully completed a EUR 1,010 million capital increase with an estimated increase of 154 basis points on Core Tier I capital based on risk weighted assets as at 31 December 2011, and other things remaining constant.

- The slow interbank money market and inaccessibility to the international debt markets led the ECB to assume a role in liquidity provision to the Eurozone banking system. On 31 March 2012, the BES Group's net borrowing position at the ECB was approximately EUR 12.1 billion, of which EUR 10.2 billion has a maturity of over one year. The portfolio of repoable securities totalled EUR 24.2 billion, of which EUR 20.5 billion were eligible for rediscount with the ECB.
- Despite the deleveraging process, commercial banking income grew by 8.7 per cent. year-on-year, driven by both net interest income (which increased by 8.6 per cent.) and fees and commissions (which increased by 8.9 per cent.). Banking income for the first quarter of 2012 increased by 0.7 per cent., notwithstanding the decrease in trading gains resulting from the market's overall downturn. Due to this positive performance combined with the reduction in costs, operating income increased by 5.2 per cent. (compared with a decrease of 18.6 per cent. in the first quarter of 2011).
- Operating costs decreased by 3.2 per cent., translating to a 5.8 per cent. reduction in domestic costs. The international costs increased by 3.1 per cent., compared to 2011 where such costs increased by 18.7 per cent.).
- The cost to income (ex markets) continued to improve, rising to 54.3 per cent. (compared to 61.0 per cent. for the first quarter of 2011 and 57.3 per cent. for the full year 2011), while the total cost to income reached 51.4 per cent. (compared to 53.5 per cent. for the first quarter of 2011 and 57.9 per cent. for the full year 2011).
- Rising unemployment and a struggling corporate sector continued to require a solid provisioning policy: the provision charge in the first quarter totalled EUR 190.7 million, which is in line with the provision charge for the third and fourth quarters of 2011 (EUR 191 million and EUR 188 million, respectively). The credit provision charge amounted to EUR 149 million, and as a percentage of gross loans remained in line with the 2011 level (1.17 per cent.). Translating the increase in the first quarter's overall provision charge (an increase of 85 per cent. year-on-year; an increase of EUR 87.6 million) the BES Group's net income for the period was EUR 11.6 million.
- The overdue loans ratio (greater than 90 days) was 2.96 per cent. (compared with 2.74 per cent. at December 2011) with provision coverage standing at 150.3 per cent. (compared with 154.5 per cent. at December 2011). The provisions for credit/gross loans ratio continued to improve, reaching 4.45 per cent. (compared with 3.47 per cent. at March 2011 and 4.23 per cent. at December 2011).

The full text of the results of BES for the three month period ended 31 March 2012 are available for inspection. See "*General Information – Documents Available*".

On 11 May 2012, BES completed its agreement, entered into with Crédit Agricole on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated. The BES Group expects the acquisition to result in a Core Tier I capital reduction of approximately EUR 140 million equivalent to a Core Tier I reduction of 22 basis points, based on the risk-weighted assets as at 31 December 2011.

On 29 February 2012, the audited consolidated financial statements of ESFG's subsidiary BES for the year ended 31 December 2011, prepared in accordance with IFRS as adopted by

the European Union were published. The following is a summary of the results of the BES Group for the year ended 31 December 2011:

- 2011 was negatively impacted by the Eurozone financial crisis and the implementation of the Financial Assistance Programme for Portugal agreed between the Portuguese government, the EU, the ECB and the IMF, which forced the Portuguese banks to achieve ambitious deleveraging and capitalisation targets.
- Loan to deposit ratio decreased to 141 per cent. as at 31 December 2011 from 165 per cent. as at 31 December 2010. This improvement was underpinned by the increase in customer deposits to EUR 34.2 billion, an increase of EUR 3.4 billion or 11 per cent., while sales of international credits totalled EUR 2.0 billion, reducing the total portfolio by 2.7 per cent.
- In order to reinforce the BES Group's core capital, BES carried out a capital increase through an exchange offer in December 2011, pursuant to which BES issued 294,573,418 new shares and raised its share capital by EUR 530 million to EUR 4.0 billion.
- At 31 December 2011 the BES Group's Core Tier I ratio was 9.2 per cent. (December 2010: 7.9 per cent.), its Tier I ratio was 9.4 per cent. (December 2010: 8.8 per cent.) and its Solvency Ratio was 10.7 per cent. (December 2010: 11.3 per cent.).
- ECB liquidity facilities were fundamental to overcoming the inaccessibility to international markets. The portfolio of repoable securities totalled EUR 18.9 billion, of which EUR 15.1 billion were eligible for rediscount with the ECB. As at December 2011, the use of ECB facilities amounted to EUR 8.8 billion.
- Commercial banking income remained resilient during 2011, despite the reduction of activity due to the crisis and the deleveraging programme. The drop in trading gains, one off charges in domestic activity and the reinforcement of provisions led to a loss of EUR 108.8 million in 2011. The international activity posted a net profit of EUR 160.8 million, down 21.1 per cent. year-on-year.
- In 2011, the one off charges included the EUR 107 million loss related to the transfer of pension liabilities to the Social Security (EUR 76 million net of taxes); the EUR 193.3 million loss in the stake of BES Vida (EUR 144 million net of taxes); and the EUR 78 million losses on the sale of international loans (EUR 55.4 million net of taxes), which are necessary to simultaneously continue to provide credit to Portuguese companies and to comply with the deleveraging programme.
- Operating costs increased by 0.5 per cent. only, despite the expansion and consolidation of the new international units, which increased 18.7 per cent., staff costs increased by 1.0 per cent. while other administrative costs dropped by 1.7 per cent. Total domestic costs decreased 5.6 per cent.
- Provisions were reinforced by EUR 848.3 million, up 59 per cent. year-on-year, of which EUR 600.6 million (2010: EUR 351.8 million) are related to credit provisions. Total credit provision reserve amounted to EUR 2.2 billion in 2011, up 22 per cent. year-on-year. The referred reinforcements include EUR 42.7 million resulting from the SIP, less than the amount disclosed in June 2011 (EUR 125 million), as additional provision charges have been made in accordance with the BES Group's usual criteria. The credit provision charge of 1.17 per cent. (December 2010: 0.67 per cent.) lifted

the credit provisions/gross customer loans ratio to 4.23 per cent. (December 2010: 3.38 per cent.).

- The overdue loans ratio (greater than 90 days) was 2.74 per cent. (December 2010: 1.95 per cent.) with provision coverage standing at 154.5 per cent. (December 2010: 173 per cent.).

The audited consolidated financial statements of BES for the year ended 31 December 2011 are available for inspection. See “*General Information – Documents Available*”.

RISK MANAGEMENT

Efficient risk management and control has played a fundamental role in the balanced and sustained growth of the ESFG Group. The ESFG Group seeks to achieve the best balance of risks and returns with a goal of achieving a sustained high return on equity. The ESFG Group's risk management strategy is consistent with the regulatory and economic vision implicit in the new regulatory framework proposed by the Basel Committee. ESFG monitors and evaluates risk on a group-wide basis, which enables management to actively control the impact of the identified and measured risks on the results of the ESFG Group.

The Board of Directors of ESFG is responsible for establishing the general principles of risk management and control, defining the objective risk profile for the ESFG Group, including establishing both global and specific risk limits and ensuring that the ESFG Group has the necessary competences and resources for the purpose. ESFG's risk management function, as stipulated in the Internal Control Report (Bank of Portugal Notice No. 5/2008) is responsible for:

- making sure that the risk management system is effectively and consistently implemented at ESFG and its subsidiaries, to continuously monitor for adequacy and effectiveness, as well as monitoring the progress of corrective measures;
- advising the Board, preparing and submitting to them and the supervisory body, no less than once a year, a report on risk management, indicating whether all appropriate measures have been taken to correct possible deficiencies in ESFG risk management strategy.

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

ESFG's principal banking investment, BES, holds a Daily Financial and Credit Committee: its meetings are attended by members of the Executive Committee of BES and heads of departments; the main credit operations are submitted to, and decided by, this Committee, in accordance with established risk policies. It also monitors the treasury position and the financial markets. BES' Assets and Liabilities Committee holds monthly meetings, which are attended by the members of the Executive Committee of BES, including its Chairman, and is responsible for managing market, interest rate and liquidity risk – see *“The Risk Function within the BES Group”* below.

In addition to the risk management structure implemented by the ESFG Group, the ESFG Group relies on the senior management of each subsidiary to help monitor risk. The senior management of the ESFG Group companies have extensive knowledge of the markets and activities in which they operate.

Basel II

The ESFG Group fully recognises the challenges and opportunities that arise from application of the Basel II Capital Accord. The ESFG Group recognises the demands of matching regulatory requirements with the economic outlook implicit in the new regulatory framework proposed by the Basel Committee.

ESFG Group set a target to adopt the IRB Foundation approach for credit risk and the Standardised Approach for operational risk. One of the main priorities of Basel II was to consolidate the development and fine-tuning of internal risk analysis models, in particular

risk rating systems. At the same time, major developments in information systems were required, namely for the centralisation of information. Finally, the introduction of risk matrices and criteria in the day-to-day decision-making processes were reinforced. To this end, management practices, policies and procedures had to be adapted in order to ensure that risk assessment was explicitly considered in the decision-making process.

On 30 April 2009, ESFG announced the Bank of Portugal's approval of the ESFG Group's request for the use of IRB (Internal Ratings Based) method. The Portuguese central bank's decision came into effect on 31 March 2009. ESFG, through its subsidiaries in Portugal, became the first institution to receive approval from the Bank of Portugal for the IRB Foundation Method. According to the regulations, the approved IRB method implies utilisation of internal estimates of default probabilities as well as estimates of loss given default(s) and conversion factors for the retail segments (IRB Advanced). For the remaining segments, the same authorisation will allow the utilisation of internal estimates for default probabilities (IRB Foundation).

The following is a summary of the ESFG Group's primary risk exposures.

Market risk

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

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO) at the level of the relevant ESFG Group subsidiary. These committees are responsible for defining policies for the structuring and composition of the balance sheet and 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 BES Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99 per cent. and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. Other initiatives have also been developed, such as back testing, consisting of comparing the losses foreseen by the VaR model with actual losses. These exercises permit the BES Group to fine-tune the model and improve its predictive capabilities, along with stress testing which has also been developed in order to permit the BES Group to assess the impact of higher potential losses than those considered using VaR valuation.

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). Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the ESFG Group's businesses. For credit default swaps, the net exposure between selling and buying positions in relation to each reference entity, is also considered as credit risk to the ESFG Group.

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 used, in the risk assessment undertaken and the control tools in place, as well as in procedures and decision-making processes.

The risk profile of the ESFG Group's credit portfolios is analysed on a regular basis by the risk committees at the subsidiary level. In these meetings the risk committees monitor and analyse the risk profile under four principal perspectives: evolution of credit exposures, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

Insurance risk

Insurance risk is the inherent risk related to the selling of insurance contracts, underwriting policy, pricing, reserving, claims management and reinsurance arrangements.

Part of the ESFG Group's property and casualty insurance business involves covering losses from unpredictable events such as floods, earthquakes, hurricanes, fires, industrial explosions, terrorist attacks and other man-made or natural disasters.

Pricing is based on actuarial methodologies, revised on a regular basis in order to ensure a rigorous policy in respect of underwriting and risk acceptance. Risks underwritten that require selective acceptance are analysed centrally. Evidence of the underwriting conditions and identification of the decision maker are required.

The ESFG Group also maintains technical reserves (which include reserves for unearned premiums, unexpired risks, outstanding claims (incurred but not reported claims) and equalization reserve) to cover potential claims in its life insurance business and sets up provisions for claims in its property and casualty insurance business, based on actuarial valuations. These provisions do not represent an exact liability. Instead, they are based on statistical projections. As the ESFG Group cannot ensure that actual losses on claims will not differ from the initial estimates made and recorded in the accounts, the ESFG Group normally seeks to reduce its exposure to such events through the purchase of reinsurance.

Longevity risk covers the uncertainty in the ultimate loss due to policyholders living longer than expected and can arise for example, in annuity portfolios within the life insurance and workmen's compensation portfolios within non-life insurance. Longevity risk is managed through pricing, underwriting policy and by regularly reviewing the mortality tables used for pricing and establishing reserves. Where longevity is found to be improving faster than assumed in the mortality tables additional reserves are established and mortality tables are updated.

Operational risk

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

The ESFG Group is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised frauds, as a result of the ESFG

Group's financial operations), breach or delays in providing services and in complying with risk management requirements. The ESFG Group continually monitors these risks by means of, among other things, advanced administrative and information systems and insurance coverage in respect of certain operational risks.

To manage operational risk, ESFG Group implemented a system that standardises, systematises and regulates the frequency of actions viewing the identification, monitoring, control and mitigation of risk. The system is supported at organisational level by a unit within the Global Risk Department of BES, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Liquidity risk

Liquidity risk arises from present or future inability to pay liabilities as they mature without resulting in exaggerated losses. The ESFG Group prepares regulatory specific reports that allow the identification of such negative mismatches. Banks, by virtue of their business of providing long-term loans and receiving short-term deposits, are subject to liquidity risk. In recent years most banks have increasingly resorted to obtaining funds from market sources instead of from their traditional sources (retail deposits), especially in countries where savings are typically scarce due to economic stagnation, as is the case in Portugal. See "*Risk Factors – Liquidity risk*".

See Note 52 to the audited consolidated financial statements of ESFG for the year ended 31 December 2011 and Note 51 to the audited consolidated financial statements of ESFG for the year ended 31 December 2010, which are incorporated by reference in this document in "*Incorporation by Reference*" for additional information on risk management.

The Risk Function within the BES Group

The BES Group's risk management and control processes play an integral role in the balanced and sustained growth of the BES Group and are designed to ensure the optimisation of risk/return across the various business lines and to maintain a conservative risk profile in terms of solvency, provisioning and liquidity.

The establishment of the BES Group's risk profile is the responsibility of the Executive Committee of BES. The Executive Committee's responsibilities include establishing general principles of risk management and control and ensuring that the BES Group has the necessary competencies and resources for the execution of such risk management and control.

To support the decisions of the Executive Committee, the BES Group has several specialised committees in place within its organisation that focus on risk management and control:

- Risk Committee: this meets monthly and meetings are attended by the Chairman of the Executive Committee. It is responsible for all matters related to the BES Group's global risk, for monitoring the Group's integrated risk profile and for analysing and proposing policies, methodologies and procedures to assess and control all types of risk;
- Daily Credit Committee: this meets daily and meetings are attended by members of the Executive Committee. The BES Group's main credit operations are submitted to and decided by this committee, in accordance with established risk policies; it also monitors the BES Group's treasury position and the developments in the financial markets; and

- Asset and Liability Committee (ALCO): this meets monthly and meetings are attended by members of the Executive Committee, including its Chairman. It is responsible for managing market, interest rate and liquidity risk.

The risk management function operates independently of other areas of the BES Group and is organised in such a way as to manage the main risks to which the BES Group is exposed: credit, market, liquidity; on–balance sheet interest rate and operational risks.

The management and monitoring of risk, at the BES Group operational level, is centralised in the Global Risk Department (GRD), whose activities are aimed at ensuring best practices in risk management, including:

- identification, assessment and control of the different types of risks assumed;
- implementation of the risk policies outlined by the Executive Committee across all business units;
- contributing towards achieving the BES Group’s value creation objectives, by supporting the structuring and pricing of operations and by developing techniques for assessing performance and for optimising its capital position; and
- monitoring the BES Group’s internationalisation strategy, including monitoring and reporting on risk exposure of the various international areas.

Organisation of the Risk Function within the BES Group

The Credit Risk Area is responsible for (i) the process of assigning risk ratings, and (ii) drafting risk analysis, including expert opinions on new credit operations and customers/business groups, when so justified by the respective liabilities versus rating, in accordance with the regulations in force.

At BES the area responsible for risk ratings, expert opinions and risk analysis is organised into teams specialised by risk segments:

- Rating Desk Team, for large corporates (companies with individual or consolidated turnover above EUR 50 million), credit and financial institutions, institutional customers, local and regional administration bodies, and project finance and acquisition finance operations;
- Middle Market Team, covering the following areas:
 - validation of ratings in the medium–sized companies segment (individual or consolidated turnover between EUR 1.25 million and EUR 50 million); and
 - drawing up risk analysis of customers, and issuing expert opinions on new credit operations (investment projects, restructuring of operations, construction financing, among others); and
- Micro Companies Team, responsible for start–ups (companies incorporated for under two years) and Independent Professionals (IPs) with individual or consolidated turnover below EUR 1.25 million.

The Credit Risk Monitoring Area is responsible for monitoring and controlling credit risk, and for defining and implementing measures intended to deal with specific situations

indicative of a deterioration of risk, with a view to mitigating potential losses. This process is supported by the Committee for Credit Risk Analysis (CCRA).

The Credit Risk Monitoring Area also has the following responsibilities:

- to organise and lead the Impairment Committee, which makes impairment analysis of customers with significant monthly changes and monitors client impairments when justified by their size or situation;
- to maintain relationships with the supervision authorities and the external auditors concerning the monitoring of the activities of supervision and credit portfolio revision;
- to assist the commercial areas concerning the early identification of risk indications in customers monitored by these areas, and the regular reporting and disclosure of such information in the “risk cockpit” (front desk); and
- to support the BES’ internationalisation process, through the definition of policies and procedures concerning risk and impairment monitoring mechanisms.

The area of Risk and Capital Planning and Control is responsible for the planning and control of portfolios subject to credit risk through the coordinated monitoring of the following elements:

- *Capital adequacy requirements and solvency:* development and implementation of tools to calculate regulatory capital requirements for credit risks, in accordance with the rules defined by the Basel II Accord; monthly planning and control of regulatory capital requirements for credit risks and computation of the BES Group’s solvency ratios;
- *Non-performing loans and credit provisioning:* monthly budgeting and monitoring of overdue loans; development of the methodology to calculate credit impairment losses; and planning and coordination of the process of determining these losses on a monthly basis; and
- *Risk concentration:* reporting on the major regulatory risks; defining internal methods to measure and control credit risk concentration by conglomerates and active sectors.

The Market Risk Area has as main functions to quantify, monitor and report on market risk (trading portfolios), on-balance sheet interest rate risk and liquidity risk, which is linked with balance sheet management through the Assets and Liabilities Committee (ALCO).

The Operational Risk Area has as its main responsibilities to:

- define methodologies to calculate regulatory capital requirements under the Standard method, and coordinate these calculations;
- ensure that there are procedures in place to standardise, systematise and regulate the frequency of actions to identify the main sources of risk, through self-assessment exercises, in meetings with the representatives from Operational risk, and through critical analysis of reported events and other available data;

- monitor and analyse risk through key risk indicators (Risk Assessment Model – MAR) and the information available in the operational risk events database;
- establish and monitor the implementation of risk mitigation actions and measures; and
- report the corresponding relevant information to the appropriate level in the hierarchy.

The Strategic Management of Risk Area deals with the methodologies, evaluation models and risk policies applying to all categories of risks. At operating level, it is subdivided into two units:

- *The Research and Development (R&D) unit:* (i) develops and monitors methodologies and models to identify and quantify the various categories of risk, namely, in the case of credit risk, the various Probability of Default, Loss Given Default and Exposure at Default models used by BES Group; (ii) develops and implements decision support tools based on risk versus value; (iii) supports the integration by the various business areas of risk adjusted return concepts; and (iv) supports securitisation processes through the management of the rating allocation process and the selection of portfolios from the standpoint of risk transfer; and
- *The Risk Policies/Processes unit:* (i) proposes risk policies; (ii) participates in the assessment of the efficiency and effectiveness of decision-making processes and in the drafting of proposals to redefine such processes, quantifying the risk parameters required in a cost-benefit analysis; and (iii) analyses and proposes approval power limits for the various types of risk, at transaction, client and portfolio level.

The Independent Validation Unit makes sure that there is full independence from the other risk management areas (including from the division responsible for the development of models), having the following main responsibilities:

- to validate on a continuous basis the risk models and parameters used to calculate capital adequacy requirements for credit risk (Probability of Default, Loss Given Default and Exposure at Default/Credit Conversion Factor), at both quantitative and qualitative level;
- to user test the level of integration of the internal risk rating system within current and strategic management, with a particular focus on risk management;
- to validate the new credit risk evaluation models developed by the Strategic Management of Risk Area and fine-tune the existing models;
- to identify opportunities to improve credit risk evaluation models; and
- to work with the Bank of Portugal and the Audit Department on the validation of the credit risk models used by the BES Group.

Internal Audit and Compliance Department

In addition, the Internal Audit and Compliance functions (performed respectively by the Audit and Inspection Department and the Compliance Department) also have a particularly relevant role in risk management. The Internal Audit Department reports to the Audit

Committee. It is responsible for assessing the effectiveness and adequacy of risk management, internal control and governance processes in the BES Group with the objective of reducing risk conditions. Its responsibilities include:

- to analyse operational and business processes and to assess the effectiveness of the respective risk management and controls, as well as compliance with applicable legal/regulatory provisions and internal regulations;
- to cooperate with all the bodies of the BES Group and to review the implementation and correct application of policies established at the senior management level, particularly with regards to the understanding and application of internal control procedures;
- to check and to assess the protection and safety of money, and to record and document assets that are the property of the BES Group or were entrusted to the BES Group for safekeeping;
- within the scope of its powers, to ensure and promote the relations with legal and police authorities, with the Bank of Portugal, the CMVM and other supervisory authorities, and also to address requests from other public and private institutions;
- to participate in the definition and preparation of regulatory texts that ensure the standardisation of prevention, control and safety procedures, and to issue and publish communications and circular letters on matters pertaining to its specific sphere of intervention; and
- to ensure the prompt correction of practices that breach regulatory texts and/or internal regulations, while making sure that the procedures adopted for the execution of operations are duly regulated.

The Compliance Department also reports to the Audit Committee. It ensures the day-to-day management of compliance activities, which include:

- to advise the Board of Directors of BES on compliance with legal, regulatory, ethical and conduct obligations to which the institution is subject;
- to implement policies and procedures for the prevention and detection of money laundering and terrorism financing;
- to execute the assessment, systems, monitoring and maintenance tasks required by BES' internal control system, and to report internally and externally on the respective results;
- to verify compliance of financial intermediary activities registered with the CMVM, under the terms set forth in the Portuguese Securities Code;
- within the scope of its powers, to ensure and promote the relations with legal and police authorities, with the Bank of Portugal, the CMVM and other supervisory authorities; and
- to monitor the implementation of the code of conduct by employees of the BES Group.

SUPERVISION AND REGULATION

Introduction

Since the majority of the ESFG Group's activities are conducted in Portugal by the BES Group, a summary of Portuguese banking and insurance regulations is set out below. There are no applicable regulatory controls under Luxembourg law that are likely to have a material impact on the ESFG Group's future financial performance.

In 1997, the Bank of Portugal initiated supervision of ESFG on a consolidated basis (and therefore including the BES Group) pursuant to Council Directive 92/30/EEC of 6 April 1992 on the supervision of credit institutions on a consolidated basis, and since 15 June 2000 pursuant to Directive 2006/48/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions.

The Bank of Portugal

The Bank of Portugal is a part of the European System of Central Banks (ESCB), which was created in connection with the European Economic and Monetary Union (EMU). The EMU implements a single monetary policy, the main features of which are a single currency – the euro – and the creation of the ECB and the ESCB. According to the EU Treaty, the primary objective of the ESCB shall be to maintain price stability through monetary policy.

The Bank of Portugal is directed to provide for the stability of the domestic financial system, performing for this purpose the function of lender of last resort. This goal is achieved through the supervision of credit institutions, financial companies and other entities subject to the supervision of the Bank of Portugal.

According to the *Regime Geral das Instituições de Crédito e Sociedades Financeiras*, the Legal Framework of Credit Institutions and Financial Companies (enacted by Decree Law No. 298/92 of 31 December 1992, as amended from time to time), the Bank of Portugal authorises the establishment of credit institutions and financial companies based on technical-prudential criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches should they occur, and possesses the ability to take extraordinary measures of reorganisation.

The Bank of Portugal has established rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. It monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

The Bank of Portugal is also charged with the duty to regulate, oversee and promote the smooth operation of payment systems, namely within the scope of its participation in the ESCB. Membership in the EU subjects Portugal to compliance with European legislation which may either be in the form of regulations, which are directly enforceable in any member state, or directives addressed to the member states, which may require the enactment of implementing legislation or which, as established by the European Court of Justice in several decisions, may be deemed to be directly enforceable in a member state in the event that they are clear, precise and unconditional. In addition, the European Commission and the Council of Ministers issue non-binding recommendations to member states. The Portuguese authorities have introduced EU directives and recommendations into legislation to adapt Portuguese laws to European regulatory standards.

Additional supervision

Credit institutions incorporated in Portugal are also subject to the supervision of the CMVM with respect to the performance of investment services/ancillary services. Therefore, CMVM supervises BES in relation to its performance of the activities foreseen in Articles 290 and 291 of the Portuguese Securities Code (*Código dos Valores Mobiliários*), such as asset management on behalf of third parties, securities custody, assistance and placement of public offers of securities, investment consultancy and brokerage.

Furthermore, BES is also subject to the supervision of CMVM as an issuer with securities admitted to trading on a Portuguese regulated market, which qualifies it as a public company (*sociedade aberta*) that is required to comply with the applicable provisions of the Portuguese Securities Code, in particular, with regard to qualifying holdings and disclosure requirements (such as those applicable to inside information and financial information).

Capital adequacy requirements

Capital and solvency ratios

Portuguese credit institutions are subject to solvency ratio requirements. These requirements conform to the EU legal framework establishing common standards for the measurement of capital and a system for weighting assets according to credit risk (as set forth in Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions). The solvency ratio is defined as Tier I capital plus Tier II capital divided by risk-weighted assets and the minimum required ratio is currently 8 per cent.

- At 31 December 2011, the ESFG Group's Core Tier I ratio and Tier I ratio were 8.3 per cent. and 8.6 per cent., respectively, calculated under the Basel II, IRB Foundation Method.
- At 31 December 2011, the BES Group's Core Tier I ratio and Tier I ratio were 9.2 per cent. and 9.4 per cent., respectively, under the Basel II, IRB Foundation Method.

The Basel Committee on Banking Supervision announced recently a substantial strengthening of existing capital rules, particularly as a result of the capital structure weaknesses demonstrated by the banking sector during the recent financial crisis. The new bank capital rules will be applicable from 1 January 2013. The Basel Committee's package of reforms will increase the minimum common equity requirement from 2 per cent. to 4.5 per cent. In addition, banks will be required to hold a capital conservation buffer of 2.5 per cent. to withstand future periods of stress bringing the total common equity requirements to 7 per cent.

In May 2011, following the Portuguese government's request for assistance and the signing of the Memorandum of Economic and Financial Policies (MEFP) between the Portuguese government, the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), the Bank of Portugal published Notice 3/2011 under which new minimum levels of Core Tier I capital for Portuguese regulated banking institutions were set at 9 per cent. by 31 December 2011 and 10 per cent. by 31 December 2012.

The Bank of Portugal and the ECB, in consultation with the EC and the IMF, established clear periodic target leverage ratios that required Portuguese banks to develop institution specific medium-term funding plans by 30 June 2011 to achieve a stable market-based

funding position. The ECB, the EC and the IMF, collectively known as the “Troika”, will make, from time to time, periodic reviews of banking activities in Portugal. The increase in supervision resulting from the IMF/Eurozone Stabilisation Programme may result in ESFG facing the need to increase its capital base further or to restrict its policy regarding earnings distribution. Additionally, the ESFG Group may also be subject to additional constraints on the way it manages assets and liabilities and may be affected by the triggering of public recapitalisation mechanisms (which are subject to conditions) specifically provided for by the Stabilisation Programme.

On 15 July 2011 the Bank of Portugal announced the results of the EU-wide stress test for 2011 conducted by the EBA, the EC and the European Systemic Risk Board. The results calculated for the ESFG Group, based on the assumptions and methodology defined by the EBA, confirmed a Core Tier I ratio of 5.8 per cent. in 2012 under the adverse scenario, after taking account of divestments and other management action taken by 30 April 2011, compared to 6.4 per cent. as of the end of 2010.

On 27 October 2011, ESFG announced that it had received a statement from the Bank of Portugal that, among other things:

- in light of the substantial increase in systemic risk triggered by the sovereign debt crisis in the Euro area and after careful evaluation, at market value, of sovereign debt as at 30 September 2011, it was decided that the banking groups subject to the EBA stress tests should strengthen their levels of capital in order to reach, by 30 June 2012, a Core Tier I capital ratio of 9 per cent.; and
- the total amount of capital identified as needed for the ESFG Group was EUR 1.487 billion, with EUR 44 million resulting from the evaluation at market prices of its exposure to sovereign debt.

On 8 December 2011, ESFG announced that it had received a statement from the EBA that stated, among other things:

- in light of the decision that the banking groups subject to the EBA stress tests should strengthen their levels of capital and following the completion of the capital exercise conducted by the EBA in close cooperation with the Bank of Portugal, it was determined that ESFG had a capital shortfall of EUR 1.597 billion (with EUR 121 million resulting from the evaluation at market prices of exposure to sovereign debt) which must be addressed by the end of June 2012; and
- ESFG would ensure that it would adhere to the Core Tier I capital ratio of 9 per cent. by the end of June 2012, and it would submit a plan to the Bank of Portugal by 20 January 2012, setting out the proposed action to be taken by ESFG to meet that Core Tier I capital ratio of 9 per cent. target by the end of June 2012 and to bring the capital shortfall to zero.

At 31 December 2011, the ESFG Group’s Core Tier I ratio, calculated under the Basel II, IRB Foundation Method, was 8.3 per cent.

On 10 January 2012, the Bank of Portugal, taking into account the results of the EBA stress test, published Notice 5/2012 under which it confirmed the new minimum level of the Core Tier I capital ratio, set at 9 per cent., to be achieved by 30 June 2012.

On 1 March 2012, ESFG announced the results of the SIP as follows:

- The Bank of Portugal announced on 1 March 2012 the completion of the third and final stage, and global results, of the SIP, the programme undertaken as part of the measures and actions agreed by the Portuguese authorities for its financial system within the framework of the Programme of Economic and Financial Assistance agreed with the IMF/EU/ECB in May 2011.
- The SIP covered eight of the largest Portuguese banking groups, including ESFG. The first two stages and respective results were published on 16 December 2011.
- The objective of the third stage of the SIP was to evaluate the adequacy of the parameters and methodologies used by the banking groups in their respective financial projections that supported future solvency forecasts, which were undertaken within the framework of the “Stress Tests” exercises. The evaluation undertaken confirmed that ESFG’s parameters and methodologies were “clearly adequate”, the highest classification attributable under stage 3 of the SIP.
- With regard to measures that warrant further improvement, ESFG will establish and present its implementation plan to the Bank of Portugal in the short term, in the context of the ESFG Group’s continued improvement process.

On 11 May 2012, BES completed its capital increase and issued 2,556,688,387 new ordinary shares, raising gross proceeds of EUR 1,010 million. It is estimated that as a result of the capital increase BES has raised its Core Tier I capital ratio from 9.21 per cent. to 10.75 per cent. (an increase of 154 basis points), based on risk weighted assets as at 31 December 2011 (and all other things remaining constant), above both the minimum Core Tier I capital ratio of 9 per cent. required by the EBA by 30 June 2012 and the minimum Core Tier I capital ratio of 10 per cent. required by the Bank of Portugal by 31 December 2012.

On 11 May 2012, BES also completed its agreement, entered into with Crédit Agricole on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated. The BES Group expects the acquisition to result in a Core Tier I capital reduction of approximately EUR 140 million equivalent to a Core Tier I reduction of 22 basis points, based on the risk-weighted assets as at 31 December 2011.

On 26 April 2012, ESFG issued 102,040,816 New Shares. ESFG has applied the proceeds from the issue of the New Shares to strengthen its Core Tier I capital on a consolidated basis and, in particular, by subscribing for ESFG’s full entitlement in BES’ capital increase which completed on 11 May 2012, in order for ESFG to meet the required EBA Core Tier I capital ratio of 9 per cent. by 30 June 2012 and towards meeting the Bank of Portugal Core Tier I capital ratio of 10 per cent. by 31 December 2012.

On 26 April 2012, ESFG also announced that, based on risk weighted assets as at 31 December 2011, the issue of the New Shares results in ESFG’s core capital position (CET1) increasing to 9.5 per cent. (including the sovereign capital buffer required by the EBA) and to 10.0 per cent. calculated under the Basel II, IRB Foundation Method.

ESFG will continue to adopt measures in order to meet the Bank of Portugal’s minimum levels of Core Tier I capital. Credit institutions that fail to comply with these minimum Core Tier I capital requirements are subject to various measures that may be imposed by the Bank

of Portugal, including in respect of the ESFG Group, possible restrictions on dividends and imposition of fines and other sanctions on, not only the bank, but also its directors and executive officers.

Own Funds and Large Exposures

Credit institutions are required by Portuguese law to maintain an adequate level of own funds, which shall be at least equal to the minimum share capital. The relevant criteria to determine the level of own funds is determined by the Bank of Portugal.

Under Portuguese law, credit institutions may not incur exposure to a client or group of connected customers exceeding 25 per cent. of own funds. This limit is increased to 40 per cent. of own funds if the exposure is to a company that is a subsidiary of the credit institution and both the parent and the subsidiary are subject to the supervision of the Bank of Portugal on a consolidated basis, subject to certain conditions.

As permitted by the Banking Consolidation Directive, the Bank of Portugal has exempted from this requirement the exposure to certain assets, including assets constituting credits over central governments or central banks to which a 0 per cent. risk weighting would be applicable under the relevant Bank of Portugal regulation.

Additionally credit institutions are required to manage and report on the concentration of risks, including credit, market, liquidity and operational risk. Portuguese law requires institutions to prepare and enact a risk concentration policy which includes measures to be adopted in case of excessive concentration of risks, including, among others, asset disposals, risk mitigation techniques and restrictions on the granting of credit.

Minimum Cash Requirements

Credit institutions are required to maintain minimum reserves on deposit with national central banks, calculated as a percentage of certain liabilities. The reserve requirements are set by the ECB and are currently 1 per cent. of deposits and debt securities, excluding deposits with central banks and other institutions subject to reserve requirements. Certain liabilities, notably deposits with agreed maturity over two years, deposits redeemable at notice over two years, repos, and debt securities issued with an original maturity over two years have a reserve requirement of 0 per cent.

Deposits made with the central bank for the purposes of maintaining reserve requirements earn interest at the rediscount rate at which the ECB lends to the other European central banks. The failure of a bank to maintain adequate liquidity may result in (i) a non-interest-bearing deposit with the ECB or the national central banks (of up to three times the amount of the minimum reserves which the relevant institution fails to provide) or (ii) an additional payment of up to double the ECB marginal lending rate or up to five percentage points above the ECB marginal lending rate, applied to the amount of the minimum reserves which the relevant institution fails to provide.

Deposit Guarantee Fund

The Deposit Guarantee Fund (*Fundo de Garantia de Depósitos*) was established in December 1994 and has administrative and financial autonomy. Credit institutions with head offices in Portugal that accept deposits must participate in this fund. The financial resources of the Deposit Guarantee Fund are mainly composed of initial and periodic contributions from the participating credit institutions.

The annual contributions are defined according to the monthly average of the deposits balance accepted in the previous year and to the fixed contribution rate, weighted by the average solvency ratio of each institution in the previous year (the lower an institution's ratio, the higher its contribution). The annual contributions rate is determined annually by the Bank of Portugal up to a limit of 0.2 per cent. and was set at 0.03 per cent. for 2011 for all deposits and 0.01 per cent. for deposits located in the Madeira offshore zone.

The Bank of Portugal may determine that the payment of up to 75 per cent. of the annual contributions may be partly replaced by an irrevocable undertaking, guaranteed by a pledge of securities having a low credit risk and high liquidity. The Bank of Portugal determined that this limit would be 10 per cent. for the 2011 annual contribution. If the resources are insufficient to comply with its commitments, the Deposit Guarantee Fund may ask for additional contributions or resort to loans.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the repayment to depositors of up to €100,000 per depositor.

The deposits made on Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the guarantee scheme, including but not limited to those made by credit institutions, financial companies, insurance companies, investment funds, pension funds and central or local administration bodies in their own name and for their own account. Moreover, in order to prevent a conflict of interests, the Deposit Guarantee Fund does not guarantee deposits made by an institution's managing bodies, qualifying shareholders, external auditors and companies under a group or control relationship with the credit institution.

The Deposit Guarantee Fund is not obliged to participate in any procedures regarding the reorganisation and recovery of the participating credit institutions.

Borrowing from the Bank of Portugal

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of liquidity shortfalls in the banking system. The basic method of lending employed takes the form of advances and overdrafts against collateral. For this purpose, the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is now set by the ECB.

International Capital Flows

The Portuguese authorities have established a programme of liberalisation of international capital flows in furtherance of the country's integration into the single market of the European Union.

Restrictions and limitations on acquisition of capital stock of a bank and disclosure requirements

According to the Legal Framework of Credit Institutions and Financial Companies, any legal or natural person who proposes either to acquire directly or indirectly a qualified direct or indirect holding (10 per cent. or more of the capital or the voting rights, or a holding which makes it possible to exercise significant influence over management) in a credit institution is required to give the Bank of Portugal prior notice of such intention.

Prior notice must also be given to the Bank of Portugal by any such person intending to increase an existing qualified holding as a result of which the percentage of the voting rights

or of the share capital held by such person would directly or indirectly (through persons acting in concert pursuant to the provisions governing the attribution of voting rights, that include companies and their affiliates) reach or exceed 10 per cent., 20 per cent., 33 per cent. or 50 per cent., or when such credit institution would become a subsidiary of such person.

The Bank of Portugal may oppose any such acquisition or increase if it does not consider the concerned person to meet certain conditions designed to ensure sound and prudent management of the credit institution.

All acquisitions of holdings as a result of which the percentage of the voting rights or of the share capital held by such person would reach or exceed 5 per cent. must be notified to the Bank of Portugal within a period of 15 days after they occur. The Bank of Portugal will then determine if the holding is qualified or not. The acts that determine the successful agreement for the acquisition or increase of a qualified holding must also be communicated to Bank of Portugal within 15 days from such act.

Similarly, any legal or natural person who proposes either to dispose of a qualified holding in a credit institution or to reduce the percentage of the voting rights and/or of the share capital directly or indirectly held in a credit institution as a result of which: (i) such person's holding in the credit institution would fall below 20 per cent., 33 per cent. or 50 per cent., or (ii) such credit institution would cease to be a subsidiary of such person, is also required to give the Bank of Portugal notice prior to proceeding with the proposed transaction. The notification must include information on the new amount of the holding. Additionally, if a holding in a credit institution falls below 5 per cent. of its share capital or voting rights, the Bank of Portugal must advise the holder if it considers that holding to be a qualified holding within 30 days from the verification of such fact.

Under the Portuguese Securities Code (*Código dos Valores Mobiliários*), any natural or legal person who directly or indirectly (through persons acting in concert pursuant to the provisions governing the attribution of voting rights, that include companies and their affiliates) reaches or exceeds a holding of 10 per cent., 20 per cent., 33 per cent., 50 per cent., 66 per cent. or 90 per cent. of the voting rights attributable to the share capital of any public company (*sociedade aberta*) or reduces its holding below any of the above referred limits, must notify the CMVM and the company within four days (in which the markets are open for trading) from the occurrence of the event or of its knowledge which is assumed to occur two days after the event has taken place. The notice must identify, *inter alia*, the chain of entities to which, according to law, such holding is attributed. In the event the target company is the issuer of shares or of other securities that grant the holder the right to subscribe or acquire shares listed on regulated markets located or operating in Portugal, the respective stock exchange authorities must also be notified.

In addition, these disclosure requirements also apply in the case of:

- (i) (a) public company (*sociedade aberta*), subject to Portuguese law, that issues shares or other securities granting the right to its subscription or acquisition, listed on regulated markets located or operating in a member state of the EU, (b) company, with registered office in another member state of the EU, that issues shares or other securities granting the right to its subscription or acquisition, listed exclusively on regulated markets located or operating in Portugal, and (c) company, with registered office outside the EU, that issues shares or other securities granting the right to its subscription or acquisition, listed on regulated markets situated or operating in Portugal, regarding which the CMVM is the competent regulatory authority; directly or indirectly (through persons acting in concert pursuant to the provisions governing the attribution of voting rights, that include companies and their affiliates) reaches or

exceeds a holding of 5 per cent., 15 per cent. or 25 per cent. of the voting rights attributable to the share capital of the company or reduce such holding to an amount below any of these limits; or

- (ii) public company (*sociedade aberta*), subject to Portuguese law, that issues shares or other securities granting the right to its subscription or acquisition, listed on regulated markets located or operating in a member state of the EU, directly or indirectly (through persons acting in concert pursuant to the provisions governing the attribution of voting rights, that include companies and their affiliates) reaches or exceeds a holding of 2 per cent. of the voting rights attributable to the share capital of the company or reduce such holding to an amount below such limit.

The Portuguese Securities Code provides that any natural or legal person or persons acting in concert (including companies and their affiliates) whose combined holding reaches or exceeds 33 per cent. or 50 per cent. of the voting rights attributable to the share capital of a public company, are required to launch a takeover offer for all the shares and other securities issued by the company that grant the holder the right to subscribe for or acquire shares. Such offer must be for cash or have a cash alternative. These provisions would apply in the event that ESFG increased its voting control of BES to more than 50 per cent. The ESFG Group's voting interest in BES as of 21 May 2012 was 37.0 per cent.

Investment in non-banking companies

According to the Legal Framework of Credit Institutions and Financial Companies, no credit institution may, in principle, have any direct or indirect qualified holding exceeding 15 per cent. of its own funds. In addition, the total amount of qualified holdings by a credit institution in such non-banking companies may not exceed 60 per cent. of its own funds (qualifying capital and reserves).

The Legal Framework of Credit Institutions and Financial Companies also provides that no credit institution may directly or indirectly own more than 25 per cent. of the capital of any single non-financial company for a period longer than three years (five years for shareholdings held through venture capital companies and holding companies). These limitations are not applicable to auxiliary service companies.

Treasury shares

Portuguese law prohibits a company from subscribing for its own shares and generally from issuing guarantees or lending money to any third party in connection with the subscription for or acquisition of such shares, except for loans made in the ordinary course of business by banks and other financial institutions. In the event the by-laws of a company do not prohibit the acquisition of its own shares, the company may only acquire or sell its own shares on terms and conditions determined at a general meeting of shareholders and, with certain exceptions, such shares, together with shares held by the company as collateral, may not exceed 10 per cent. of its capital. During the period the company owns such shares, all rights relating to the ownership of such shares are suspended except for the right to receive additional, free or bonus shares. With certain exceptions, a Portuguese subsidiary is prohibited from subscribing for, or acquiring, shares of its parent.

Treasury shares of a company that exceed the 10 per cent. limit must be sold within one year (if unlawfully acquired) or within three years (if lawfully acquired). Failure to sell shares in accordance with these provisions will subject such shares to cancellation and the directors of the company to potential personal liability for damages to the company, to the creditors of the company or to third parties.

Issuers subject to Portuguese or foreign law with shares or other securities that confer rights of subscription, acquisition or disposal and that are admitted to trading on regulated markets located or operating in Portugal must notify the managing body of that market and the CMVM, within three business days from the date of the relevant transaction, of any acquisitions or disposals by them of such treasury shares or securities conferring rights over treasury shares, indicating:

- the final position resulting from such transactions where such position amounts to, exceeds or falls 1 per cent. and subsequent multiples of the equity capital; or
- all acquisitions or disposals, irrespective of their net balance, made in the same trading session of a regulated market located or operating in Portugal, where such transactions, either individually or together with any already effected, amount to or exceed 5 per cent. of the quantity admitted to trading.

Controlling companies must give notice, in accordance with the terms of the preceding paragraph, of all acquisitions and disposals of securities issued by the controlling company itself and executed by a company controlled by it.

Evolution of the Regulatory Environment

As part of the EU's internal market programme, the European Commission and the European Council have proposed and adopted a number of regulations, directives and recommendations relating to the provision of banking and financial services. These include existing and proposed legislation concerning capital movements, depositors' guarantees, payment systems, collective investment companies, investment firms, public disclosure of acquisitions and dispositions of holdings in listed companies, prospectuses for the public issuance of securities, shareholders' rights, consumer credit, insider trading, mortgage credit, insurance, publication of annual accounting documents and taxation. Such legislation promotes greater competition in the provision of financial services, including areas in which the ESFG Group operates, such as securities brokerage, dealing and underwriting, and the provision of investment advice.

Other controls

The Bank of Portugal imposes a number of other controls covering various aspects of a bank's business. It administers these controls through reporting requirements and ongoing supervision, including periodic examinations of the operations and asset portfolios of individual banks and consolidated banking groups.

In the performance of its supervisory functions, it is in particular incumbent on the Bank of Portugal to:

- monitor the activity of the credit institutions;
- oversee compliance with the rules governing the activity of credit institutions;
- issue recommendations for eliminating any irregularities detected;
- take extraordinary reorganisation measures; and
- impose penalties on infractions.

Breach of rules by banks or groups under the Bank of Portugal's supervision

Breaches of rules by banks or groups under the Bank of Portugal's supervision constitute misdemeanours and may result in the Bank of Portugal imposing fines of up to approximately EUR 5 million. Ancillary sanctions may also be imposed, such as, among others, seizing the proceeds resulting from the offence, the publication of the final sanction, the prohibition against exercising management functions in credit institutions and the suspension of voting rights of the shareholders of credit institutions.

Regulation of Portuguese insurance companies

Decree Law number 94-B/98, as amended, regulates the insurance and reinsurance activities in Portugal and established the autonomy of the ISP which regulates and supervises insurance companies in Portugal.

Insurance companies are subject to minimum capital requirements which are EUR 7.5 million for non-life insurance companies with more than one branch of activity, the same amount for life insurance companies and EUR 15 million for insurance companies with life and non-life activities.

The ISP is responsible for setting the accounting and solvency requirements to be followed by insurance companies in Portugal. ISP regulations require that life and non-life insurance companies be subject to technical provisions, solvency margins and guarantee funds.

The calculation of technical provisions follow methods, rules and principles established by the ISP. The amount in technical provisions should allow an insurance company to fulfil its commitments within reasonable expectations. Required technical provisions are unearned premium reserve, unexpired risk reserve, claims reserve, provision for results participation and equalisation reserve.

Technical provisions must be represented by assets kept separately in a permanent inventory, which cannot be offered in guarantee by the insurance company or be subject to any lien. The nature, valuation and limits relating to each category of assets are established by the ISP.

Solvency margins must be sufficient to support an insurance company's activities, as provided for in Decree law number 94-B/98, as amended, for life and non-life insurance companies. It corresponds to the assets of the insurance company free from any reasonably anticipated liability and excluding intangibles. As with technical provisions, the valuation criteria of these assets is established by the ISP.

Insurance companies incorporated in Portugal and branches of insurance companies incorporated outside the European Union, must file annually with the ISP detailed information which allows the assessment of their global solvency. The ISP has issued rules relating to documentation and financial and statistical information required to be filed by insurance companies, for purposes of supervision. This includes:

- documentation: including report and accounts, reports from the official accounts review body (*revisor oficial de contas*) actuary's reports, reports on attribution of costs to branches and operational areas and reports on the use of derivative products;
- accounts and other accounting information: general costs and provision for receivables;
- solvency calculations;

- investments: assets and other investments, derivatives and income from investments;
- technical provisions and technical analysis of non-life activity: including unearned premium reserve, unexpired risk reserve, claims reserve, provision for results participation, equalisation reserve and analysis of the activities of workers compensation, motor and health;
- information on reinsurance; and
- statistical analysis: including quarterly data, provisional accounts and the amounts in pension funds managed and information on personnel.

Switzerland

The ESFG Group conducts asset management and private banking activities principally through BPES, a wholly owned portfolio management company established in Switzerland in 1977 (the company changed its name from Compagnie Bancaire Espirito Santo, S.A. to Banque Privée Espirito Santo, S.A. on 11 January 2007). BPES is separately and solely regulated in Switzerland by the Swiss Federal Banking Commission.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

Names, functions and principal business activities

ESFG is administered by the Board, which must consist of at least three members, who may also be shareholders of ESFG. Their term of office is six years. At the date of this document, the Board consists of 24 Directors. The Senior Management of ESFG is comprised of five Senior Vice Presidents. One Senior Vice President is also the Company Secretary of ESFG, another is the Chief Financial Officer of ESFG.

Mr Ricardo Espírito Santo Salgado is the Chairman of the Board and Mr Gherardo Laffineur Petracchini is the Chief Executive Officer of ESFG.

The following table sets out information with respect to each of the Directors and members of Senior Management and their respective positions.

Name	Position
Directors	
Ricardo Espírito Santo Silva Salgado	Chairman
José Manuel Pinheiro Espírito Santo Silva	Vice-Chairman
António Luís Roquette Ricciardi	Director
Mário Mosqueira do Amaral	Director
Manuel Fernando de Moniz Galvão Espírito Santo Silva	Director
Jackson Behr Gilbert	Director
Patrick Monteiro de Barros	Director
Robert Studer	Director
Philippe Guiral	Director
Manuel António Ribeiro Serzedelo de Almeida	Director
José Maria Espírito Santo Silva Ricciardi	Director
Pedro Guilherme Beauvillain de Brito e Cunha	Director
Carlos Augusto Machado de Almeida Freitas	Director
Anibal da Costa Reis Oliveira	Director
Othman Benjelloun	Director
José Pedro Torres Garcia Caldeira da Silva	Director
Fernando Pedro Braga Pereira Coutinho	Director
Yves Alain Marie Morvan	Director
José Carlos Cardoso Castella	Director
Bernard Basecqz	Director
Gherardo Laffineur Petracchini	Director
Manuel Guerrero Pemán	Director
José Manuel Ruivo Da Pena	Director
Luis António Burnay Pinto de Carvalho Daun e Lorena	Director
Senior Management	
Erich Dähler	Senior Vice President
Jean-Luc Schneider	Senior Vice President
Filipe Worsdell	Senior Vice President
Teresa de Souza	Senior Vice President
Jorge Penedo	Senior Vice President

Mr. Alexandre da Paixão Coelho and Mr. Horácio Lisboa Afonso resigned in February 2012 from their position as directors and members of the Audit Committee of ESFG to take up positions in the boards and Audit Committees in other ESFG Group companies. Their

resignation was recorded at the Annual General Meeting of ESFG held on the 27 April 2012.

Mr. José Manuel Ruivo da Pena and Mr. Luís António Burnay Pinto de Carvalho Daun e Lorena were co-opted as Directors and members of ESFG's Audit Committee at the meeting of the Board held on 15 March 2012 and the annual general meeting of ESFG held on 27 April 2012 confirmed and ratified their appointment by the Board as Directors.

Set out below are the names and functions in ESFG of the Directors and members of Senior Management, the year in which their current terms expire and their principal business activities outside ESFG.

Directors

Ricardo Espírito Santo Silva Salgado was appointed to the Board in 1984 and has served as Chairman since 1991. He is currently a Vice Chairman of the board of directors of BES and Chairman of its Executive Committee. He is also Vice Chairman of E.S. Holding Administração e Participações S.A. He is also Chairman of BESI, BES Africa, BEST, BESPARG, ESB, ESAF, ES Tech Ventures SGPS S.A., Espírito Santo Financial (Portugal) SGPS, S.A., ESS, Espírito Santo Ventures – Sociedade de Capital de Risco, S.A. and PARTRAN. He is a director of BES Finance, BESV, BPES and ESB. Outside ESFG he is Chairman of Casa dos Pórticos – Sociedade de Administração de Bens, S.A. He is a director of Banco Bradesco, S.A., Espírito Santo International S.A., Espírito Santo Services S.A. and Espírito Santo Resources Limited. He is also a member of the Conseil de Cooperation Économique. Mr Espírito Santo Silva Salgado is a cousin of José Manuel Pinheiro Espírito Santo Silva, José Maria Espírito Santo Silva Ricciardi and Manuel Fernando de Moniz Galvão Espírito Santo Silva and a nephew of António Luís Roquette Ricciardi. His current term of service expires on the date of the annual general meeting of ESFG to be held in 2014.

José Manuel Pinheiro Espírito Santo Silva was appointed to the Board in 1987 and has served as Vice Chairman since 1991. He is Chairman of BPES, Casa da Saudade – Administração de Bens Moveis e Imoveis, S.A. and Ribeira do Marchante – Administração de Bens Moveis e Imoveis, S.A. He is Vice Chairman of Espírito Santo Financial (Portugal) SGPS, S.A. He is also a director of BES, BESI, BESV, BES Africa SGPS S.A., BESPARG, ESAF, ESB, Espírito Santo International S.A., Espírito Santo Resources Limited, Espírito Santo Services S.A., Espírito Santo Control S.A., Europ Assistance – Companhia Portuguesa de Seguros de Assistência, S.A. and ESB. He is a cousin of Ricardo Espírito Santo Silva Salgado, António Luís R. Ricciardi (by marriage) and José Maria Espírito Santo Silva Ricciardi and an uncle of Manuel Fernando de Moniz Galvão Espírito Santo Silva. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

António Luís Roquette Ricciardi has served on the Board since 1984. He is Chairman of Espírito Santo Services, S.A. and Espírito Santo Resources (Portugal), S.A. He is Honorary Chairman of BESV and Vice Chairman of BESPARG. He is also a director of BPES. Outside ESFG he is Chairman of Espírito Santo Control, S.A. and Espírito Santo International. He is also a director of Espírito Santo Resources Limited and Casa do Guincho – Sociedade de Administração de Bens, S.A. He is Chairman of the Annual General Shareholders' Meeting of the following companies: Espírito Santo Resources (Portugal), S.A., Espírito Santo Viagens– SGPS, S.A., Gestres– Gestao Estrategica Espírito Santo, S.A. He is an uncle of Ricardo Espírito Santo Silva Salgado, a cousin of José Manuel Espírito Santo Silva and Manuel Fernando de Moniz Galvão Espírito Santo Silva and the father of José Maria Espírito Santo Silva Ricciardi. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Mário Mosqueira do Amaral has served on the Board since 1984. He serves as Chairman of Amaral & Pinto – Empreendimentos Imobiliários and Banco Espírito Santo North American Capital Corporation. He is a Director of BPES and Espírito Santo Services, S.A. Outside ESFG he is Vice Chairman of Espírito Santo Control, S.A. and Espírito Santo International S.A. He is also a director of Banque Marocaine du Commerce Extérieur and Espírito Santo Resources Limited. Mr Amaral joined the Espírito Santo family enterprises in 1956. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Manuel Fernando de Moniz Galvão Espírito Santo Silva was appointed to the Board in 1995. He is also a director of BES and BESPARG. He is Chairman of Rio Forte Investments S.A., Rioforte (Portugal) S.A., Espírito Santo Industrial S.A., Academia de Música de Santa Cecília, Espírito Santo Resources Limited, Espírito Santo Tourism (Europe), S.A., Euroamerican Finance Corporation, Inc. and Herdade da Comporta–Actividades Agro Silvícolas e Turísticas, S.A. He is also a director of Espírito Santo Resources (Portugal) S.A., Espírito Santo Services S.A, Espírito Santo Control, S.A., Espírito Santo International S.A., Santogal SGPS, S.A., Sapec S.A., Sociedade de Investimentos Imobiliários SODIM, S.A. WTTC (World Travel and Tourism Council). From 1984 to 1987, he worked with Morgan Grenfell London before joining the family businesses in 1988. He is a nephew of José Manuel Pinheiro Espírito Santo Silva and a cousin of Ricardo Espírito Santo Silva Salgado, António Luís Roquette Ricciardi and José Maria Espírito Santo Silva Ricciardi. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Jackson Behr Gilbert joined the Board in 1990. He is Chairman Emeritus of ESB in Florida. Prior to his association with the ESFG Group, Mr Gilbert was with Morgan Guaranty Bank from 1968–1983, where he served as a senior Vice President and President of Morgan Guaranty International Finance Corporation and from 1983 to 1989 as Vice Chairman of Riggs National Bank in the United States. He has more than 25 years experience in the banking industry. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Patrick Monteiro de Barros joined the Board in 1994. He has been Chairman of Argus Resources (UK) Ltd., an international oil trading and finance company since 1987 and is a director of Petroplus Holdings. He has more than 30 years of experience in the oil industry having served on the boards of Tosco Corporation, USA and Petrogal, S.A. He was non-executive director of Portugal Telecom from 2002 to 2006. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Robert Studer was appointed to the Board in 1999. He worked for 41 years with Union Bank of Switzerland (UBS) in Switzerland and abroad. From 1991, he was president of the group executive board and from 1996 to 1998 he was Chairman of the board of directors of UBS. Mr Studer was a director of Schindler Holding AG, Renault, S.A. and a member of the Supervisory Board of BASF AG. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Philippe Guiral joined the Board in 2000. He is President of BESV. Outside ESFG he is Vice Chairman of Banco delle Tre Venezie. He is a director of Banco Espírito Santo de Investimento S.A. He is a director of Mandel Partners and Pragma Capital and a member of the investment committee of East Capital Financial Fund. He was Vice Chairman of Banco Espírito Santo in Portugal from 1996 to 1999. He worked for Caisse Nationale de Crédit Agricole where he was Deputy Chief Executive Officer from 1991 to 1999. He was also Vice Chairman and Chief Executive Officer of Credit Agricole Indosuez, Chairman of Unicredit as well as Chairman and director of Caisse Nationale de Crédit Agricole's main subsidiaries in

France and in other countries. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Manuel António Ribeiro Serzedelo de Almeida was appointed to the Board in 2001. Outside ESFG he is Chairman of Estrela SGPS and a director of Egeo. Mr Serzedelo de Almeida has also been a director of several companies, including, Sogrape, Brown Boverly Portugal, Alcatel Group and Vista Alegre Group. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

José Maria Espírito Santo Silva Ricciardi was appointed to the Board in 2001. Mr Ricciardi is Chairman of BES Investimento do Brasil, S.A. and of Espírito Santo Investment Holdings Limited, Chairman of the Executive Committee of BESI and Vice Chairman of BESI. He is also a director of BES, and a member of its executive committee as well as a director of BES Africa, SGPS, S.A. Outside ESFG he is a Vice Chairman of the Supervisory Board of Sporting Clube de Portugal – Futebol, S.A.D. He is a member of the General and Supervisory Board, Remuneration Committee and Corporate Governance and Sustainability of EDP– Energias de Portugal, S.A. Mr Ricciardi worked at Banco InterAtlântico in Brazil and in Luxembourg. Mr Ricciardi is the son of António Luís Roquette Ricciardi and a cousin of Ricardo Espírito Santo Silva Salgado, José Manuel Pinheiro Espírito Santo Silva and Manuel Fernando de Moniz Galvão Espírito Santo Silva. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Pedro Guilherme Beauvillain de Brito e Cunha was appointed to the Board in 2001. He is Chief Executive Officer and Director of Tranquilidade. He is Chairman of Advancecare – Gestão de Serviços de Saúde S.A., BES Seguros, Pastor Vida, LOGO, ES Seguros, Espírito Santo Contact Center, Gestão de Call Centers S.A., Esumédica– Prestação de Cuidados Médicos S.A. and Europ Assistance Portugal. He is a director of BES Vida, ESS, Europ Assistance Brasil and T–Vida. Previously he held management positions in BES, Alexander Howden International Insurance Brokers and Sedgwick James. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Carlos Augusto Machado de Almeida Freitas was appointed to the Board in 2001. He was Chairman of António de Almeida & Filhos–Têxteis, S.A. and a director of Prédicõnegos–Imobiliária de Moreira de Cónegos, Lda. and Casa de Passarinhos–Gestão e Investimento until 2006. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Aníbal da Costa Reis Oliveira was appointed to the Board in 2001. Outside ESFG Mr Oliveira is Chairman of Acro–SGPS, S.A., Diliva – Sociedade de Investimentos Imobiliários, S.A., Olinerg SGPS S.A., Oliren SGPS Lda, and Olinveste SGPS Lda. He is a Director of BES, Espírito Santo Financial (Portugal) SGPS S.A. and Espírito Santo International S.A. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Othman Benjelloun joined the Board in 2002. Outside ESFG Mr Benjelloun is Chairman of Banque Marocaine du Commerce Extérieur, FinanceCom, RMA Watanya and Meditel. He is Chairman of the Moroccan Bankers’ Association. In 1995, Mr Benjelloun set up the Fondation BMCE, in Morocco, which has as its principal aims the advancement of literacy in rural areas and the protection of the environment. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

José Pedro Torres Garcia Caldeira da Silva joined the Board in 2002. He is a member of ESFG’s Executive Committee. Mr. Caldeira da Silva has been Chief Executive Officer of Banque Privée Espírito Santo since 1998. He is also a director of ESD, ESFG International

Limited and ES Bank (Panama) Limited. Outside ESFG he is a director of ADEPA Asset Management S.A. and of the Association of Foreign Banks in Switzerland. He worked in the corporate finance division of BASF AG in Germany and abroad from 1985 to 1989. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Fernando Pedro Braga Pereira Coutinho was appointed to the Board in 2005. He is chairman of ESFG's Audit Committee. Mr. Pereira Coutinho was a Consultant of JP Morgan plc. He was the general manager of JP Morgan Chase Bank in Lisbon, Portugal and the executive in charge of all JP Morgan's business in Portugal from 1990 to 2005. Prior to that he worked for Barclays Bank PLC, Banco Fonecas & Burnay, Finantia – Sociedade de Investimentos, S.A., Banco Totta & Açores, where he was an executive board member for seven years, during which he was head of the bank's international department in Portugal. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Yves Alain Marie Morvan was appointed to the Board in 2005. He is a director of BESV and Vice Chairman of ESD. He worked for the New York Stock Exchange from 1988 to 2005 where he was Senior Vice President, International Relations. He had joined the New York Stock Exchange in Paris where he represented the New York Stock Exchange and coordinated its activities throughout Europe. In 1998, he moved to New York where he continued to coordinate the New York Stock Exchange's activities with all foreign governmental institutions and all non-US stock exchanges, and was responsible for the operations of the New York Stock Exchange's Asia-Pacific, European and Latin America Advisory Committees. Prior to that he had been Director-General of the Paris-based America-European Community Association International from 1985 to 1988, and had worked for the United Nations Development Programme from 1967 to 1984, in New York, Indonesia, the Sultanate of Oman and the Philippines. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

José Carlos Cardoso Castella was appointed to the Board in 2007. He has worked for the Espírito Santo group of companies since 1986. He worked at BES from 1976 to 1978 and between 1986 and 2002 he was assistant controller of the group as well as director of several group companies. He is a member of ESFG's Executive Committee. He is Chairman of BEMS, SGPS, SA, ES International Panama, S.A., Escopar SGPS S.A., Espírito Santo Industrial S.A., Espírito Santo Irmãos SGPS S.A., Espírito Santo Resources (Portugal), S.A., Euroamerican Finance, S.A., Gestres- Gestão Estratégica Espírito Santo S.A. and Suliglor – Imobiliária do Sul, S.A. He is a director of Control Development Limited, Enterprises Management Services, Ltd, E.S. International Overseas Limited, E.S. Private Equity Limited, E.S. Resources Overseas Limited, ESAT S.A., ESNB Inc., ESFG International Limited, ESPART- Espírito Santo Participações Financeiras, SGPS, S.A., Espírito Santo Agriculture and Development, Limited, Espírito Santo BVI Participation, Limited, Espírito Santo Industrial (BVI), S.A., Espírito Santo Industrial (Portugal) SGPS, S.A., Espírito Santo International (BVI), S.A., Espírito Santo Property S.A., Espírito Santo Resources, S.A., Espírito Santo Services, S.A.- Succ. Lausanne, Espírito Santo Tourism Limited, GES Finance Limited, S.D. Imoveis, S.A. and USHUAIA – Gestao e Trading Internacional Limitada. He is a Senior Manager of Espírito Santo International S.A., Espírito Santo Property (BVI), S.A., Espírito Santo Resources Limited, Espírito Santo Control S.A., Espírito Santo Services S.A., Espírito Santo Tourism (Europe) S.A. and of Euroamerican Finance Corporation Inc. He is a Manager of Espírito Santo Services, S.A. and of Rio Forte Investments, S.A. His current term of service as a Director expires on the date of the annual general meeting of ESFG to be held in 2014.

Bernard Basecqz was appointed to the Board in 2008. He is currently non-executive Chairman of Benetton International S.A., Luxembourg. He is currently a non-executive director of BESI, QAT Investments S.A., Luxembourg and Union Bancaire Privée (Luxembourg). Mr Basecqz had an international career with Kredietbank Luxembourg, member of the KBC Group, from 1973 until his retirement in 2007. He had various managerial assignments in Luxembourg, Hong Kong and Switzerland in international banking, capital markets, corporate finance and private banking. He was a member of the bank's general management team since 1987, Chief Executive Officer of Banque Continentale du Luxembourg from 2000 to 2003 and Chief Executive Officer of Kredietbank Suisse from 2003 to 2007. He was a non-executive director of Lebanon Invest, Lebanon from 1994 to 2001 and EFA – European Fund Administration, Luxembourg from 1996 to 2001. His current term of service expires on the date of the annual general meeting of ESFG to be held in 2014.

Gherardo Laffineur Petracchini was appointed to the Board in 2008. He is the Chief Executive Officer of ESFG and a member of its Executive Committee. Mr Laffineur started his banking career with Crédit Lyonnais in Paris in 1988. He worked for the Société Générale Group from 1989 to 2008 in France, Spain and Italy, namely at Fimat (Futures Brokerage) in Paris and in Madrid where he was General Manager and Managing Director of Fimat Spain from 1992 to 1996 and International Marketing Manager of SG Fimat Asset Management for Latin America and Southern Europe from 1996 to 1997. In 1998 he moved to Milan where he was Managing Director, Head of Global Banking and Securities Services of SG Milan between 1998 and 2004. He was Managing Director, Head of International Development in Fidelity SpA (Consumer Finance) in 2005 and Managing Director of Locat Rent SpA (Long Term Car Rental), a 50/50 joint venture between SG and Unicredit Groups, until 2008. He is Conseiller du Commerce Extérieur de la France (French Foreign Trade Advisor) and an Academician of the Accademia Angelica Costantiniana of Rome in Italy. His current term of service expires on the date of the annual general meeting of ESFG to be held in 2014.

Manuel Guerrero Pemán was appointed to the Board in 2008. Mr Guerrero worked for Banco Hispano Americano in Madrid from 1975 to 1983. He worked for BP Oil International in London from 1983 to 1987 and for Repsol Group in several countries from 1987 to 2005 including as Chairman of Repsol Portugal for seven years and Chairman of Repsol Butano for nine years. He is currently President of the Advisory Board of BESI in Madrid. He is also a Director and Assistant to the Chairman of Inveravante, a Director and Vice Chairman of Grupo CETSSA Seguridad, S.A., Chairman of Parque Temático de Madrid (Parque Warner), a Director of Grupo Prensa Joly, Tradisa and Grupo Troll. He is Chairman of the Advisory Board of University Francisco de Vitoria and an Advisor for the Business School ESIC. His current term of service expires on the date of the annual general meeting of ESFG to be held in 2014.

José Manuel Ruivo Da Pena was appointed to the Board in 2012. Between 1955 and 1967 Mr Pena held various accounting positions. From 1968 to 2001 Mr Pena worked at Price Waterhouse in Portugal (partner since 1981 and Chairman since 1991) and in the United States. From 2002 to 2003 he was an adviser to the audit committee of the board of directors of BES. From 2003 to March 2012 was a non-executive member of the board of directors of BES and a member (and the Chairman since 2008) of the audit committee of the board of directors of BES. From 2007 to March 2012, he was the Chairman of the fiscal board of PARTRAN and Tranquilidade. Since 2006, Mr Pena has been Chairman of the fiscal board of BES Vida and BES Seguros. His current term of service expires on the date of the annual general meeting of ESFG to be held in 2014.

Luis António Burnay Pinto de Carvalho Daun e Lorena was appointed to the Board in 2012. In 1966, Mr Lorena worked for Sociedade Central de Cervejas. From 1967 until 1975 he worked for Banco Pinto & Sottomayor. From 1975 until 1981 he worked for Banque de L'Indochine et de Suez (including its subsidiary Banque Sudameris) in several countries. From 1981 to 1988 he worked for Sociedade Financeira Portuguesa. Following that appointment he was also a member of the board of directors and the executive committee of Banco Totta & Açores, SA and was also a representative for Portugal of Banco Español de Crédito. From 1998 to 2000 he was a member of the board of directors of Mague, SGPS, SA. From 2000 to 2002 he was a member of the board of directors of Espírito Santo Hóteis SGPS SA, Hoteis Tivoli SA, Hotelagos SA, Sociedade de Investimentos Hoteleiros Almansor, SA and MARINOTEIS — Sociedade de Promoção e Construção de Hotéis, SA. Since 2002 he has been a non-executive member of the board of directors of BES and a member of its audit committee. His current term of service expires on the date of the annual general meeting of ESFG to be held in 2014.

Senior Management

Erich Dähler joined ESFG in 1991. Prior to joining he worked as an Investment Analyst in the Union Bank of Switzerland from 1980 to 1991. He has worked as a Manager at Espírito Santo Enterprises, S.A. His current position at ESFG is Senior Vice President.

Jean-Luc Schneider joined ESFG in 1990. He is responsible for the ESFG Group's consolidation and financial reporting. He worked for American Medical International Switzerland as a regional controller from 1976 to 1989. His current position at ESFG is Chief Accounting Officer and Senior Vice President.

Filipe Worsdell joined ESFG in 2008. He worked at BESI in Portugal in BESI's debt capital markets, credit and credit derivatives division from June 2002 to 2008. He worked in BESI's equity capital markets and equity derivatives division from 1997 to 2002. His current position at ESFG is Chief Financial Officer and Senior Vice President.

Teresa de Souza joined ESFG in 1989. Prior to joining ESFG, Ms de Souza was Business Development Manager at Banco Totta & Açores, London Branch. She has been Company Secretary since 1996. Her current position is Senior Vice President.

Jorge Penedo joined ESFG in 2010. He is also a director of Espírito Santo Financière, S.A., ES Bank (Panama) S.A. and several other ESFG Group companies. He has worked as a senior manager at ESFG's sub-holdings in Portugal (insurance and banking sectors) since 1996 and at ESFG in the area of prudential reporting on a consolidated basis. Between 1989 and 1996 he worked as financial manager at Espírito Santo Resources (Portugal), S.A. Prior to joining the ESFG Group he worked as an auditor at Price Waterhouse. His current position is Senior Vice President.

Conflicts of interest

Six of the directors of Espírito Santo International are also Directors and as described under “*Names, functions and principal business activities*” a number of the Directors are also directors of affiliates of ESFG and may therefore have potential conflicts of interests between their duties to Espírito Santo International or the affiliates of ESFG, respectively, and those owed to ESFG. Except as stated, the Directors believe that there are no potential conflicts of interest of any members of the administrative, management or supervisory bodies of ESFG or members of Senior Management between any duties to ESFG and their private interests and/or other duties.

Remuneration and benefits

During the year ended 31 December 2011, the aggregate remuneration (including any contingent or deferred compensation) and benefits in kind paid to the Directors and Senior Management by the ESFG Group was EUR 4.7 million (which includes a negative charge of EUR 3.0 million with respect to the stock-option plan).

The total amount of pension, retirement or similar benefits accrued by the ESFG Group for Directors and Senior Management during the year ended 31 December 2011 was EUR 1.1 million.

As of 31 December 2011, ESFG had an asset of EUR 15.7 million, representing accrued premium payments made by ESFG to purchase life insurance coverage for the benefit of some of its Directors. These life insurance policies provide post-retirement income to covered Directors as well as death benefits to their heirs or other beneficiaries upon the death of the covered Directors. ESFG is reimbursed for the full premium payments it has made under these policies out of the death benefit proceeds.

The ESFG Group does not have agreements with any Directors that provide for payments or benefits upon termination.

Board practices

Composition of Board of Directors, Independence, Chairman and Chief Executive Officer

Luxembourg law does not have any independence requirement for the members of the board of directors of a Luxembourg company. However, ESFG broadly follows the guidance of the criteria of independence of the Luxembourg Stock Exchange in its Principles of Corporate Governance. ESFG considers that of its 24 Directors, six have no material relationship with ESFG and/or other relationships that preclude independence and, as such, would be considered to be independent.

Board committees

ESFG's Audit Committee comprises three non-executive, independent directors of ESFG who are not permitted to carry out any executive duties in ESFG or any of its affiliates. As at the date of this document Fernando Pedro Braga Pereira Coutinho is Chairman of ESFG's Audit Committee. The other two members of the Audit Committee are José Manuel Ruivo Da Pena and Luis António Burnay Pinto de Carvalho Daun e Lorena.

According to ESFG's *Statuts*, the powers of the Audit Committee are:

- surveying the running of ESFG by its Board of Directors;
- assisting the Board of Directors of ESFG in the process of overseeing the accounting and financial reporting processes;
- assessing the effectiveness of the financial reporting, internal control and risk management system of ESFG and its affiliates;
- examining the audit plan approved by the Board of Directors of ESFG or the Audit Committee and making sure that the audits are carried out and the subsequent audit reports conform to the audit plan;

- evaluating regularly its own effectiveness;
- reviewing the relevance and consistency of the accounting standards applied by ESFG (including, without limitation, the consolidation criteria);
- maintaining with the internal and statutory (or, as the case may be, external) auditors an effective working relationship;
- making recommendations regarding the statutory auditor's (or, as the case may be, the external auditor's) work programme; and
- making recommendations to the Board of Directors of ESFG and to its shareholders' meeting regarding selection, appointment, re appointment and removal of the statutory (or, as the case may be, external) auditors and, upon special delegation of the shareholders' meeting, negotiating the terms of engagement of the statutory (or as the case may be, external) auditors, in particular by monitoring the rotation of the partners of the auditors.

Corporate governance

The Board considers that ESFG complies with most of the Principles of Corporate Governance adopted by the Luxembourg Stock Exchange (the **Recommendations**) and provides the following information on those which it does not comply with and does not intend to comply with for the reasons stated below:

Recommendations 4.2 to 4.12, concerning the establishment of a nomination committee to assist in the selection of directors: the Board is of the view that such a committee is not necessary, given the composition of the Board, where representatives from major shareholders and major subsidiaries are represented together with a number of independent non-executive directors.

Recommendations 8.1 to 8.14, concerning the establishment of a remuneration committee: the Board considers that, since the vast majority of its members are not remunerated by ESFG, the establishment of a remuneration committee is not necessary.

Employees

Breakdown of employees

Employees are a key factor in the strategic development of the ESFG Group, both as a driver for change and progress and as an agent in organisational restructuring. The ESFG Group's employee strategy relies on the promotion of intellectual capital to heighten its brand awareness.

Over recent years several measures have been taken to ensure continued employee training and development which has improved their mobility within the ESFG Group. Employee training has contributed to the cohesion and strengthened workforce. The ESFG Group focuses on decentralised management, based on the definition of strategic principles which are implemented in each of its subsidiaries according to the respective needs and geographic location.

As at 31 December 2011, ESFG had four employees, all at ESFG's representative office in London. As at the date of this document, the Chief Executive Officer of ESFG and two members of ESFG's Senior Management are employed by ESFG. As at 31 December 2011,

the ESFG Group had 14,889 employees distributed over four continents; of these 12,204 (82 per cent.) worked in Portugal and 2,685 (18 per cent.) were based outside Portugal.

Certain terms and conditions of employment in private sector banks in Portugal are negotiated with trade unions, and wage negotiations occur on an industry-wide basis. The ESFG Group has not experienced any material labour relations problems and ESFG believes that the ESFG Group's relations with its employees are generally satisfactory.

The following table sets out a breakdown of the ESFG Group's employees by geographic location, main category of activity and seniority at 31 December:

Geographic Location	2009	2010	2011
Portugal	11,493	12,178	12,204
European Union	839	1,119	1,058
Other European Countries.....	153	164	155
North America	167	182	178
South America	189	206	202
Asia	19	26	30
Africa	427	923	1,047
Middle East.....	14	15	15
	<u>13,301</u>	<u>14,813</u>	<u>14,889</u>
Activities			
Banking	9,212	10,209	10,228
Health	2,747	2,968	3,233
Insurance	747	748	738
Others	595	888	690
	<u>13,301</u>	<u>14,813</u>	<u>14,889</u>
Employment			
Senior management	1,110	1,270	1,221
Middle management	1,393	1,400	1,419
Specialists	4,791	5,283	5,410
Administrative personnel.....	5,344	6,183	6,071
Auxiliary personnel	663	677	768
	<u>13,301</u>	<u>14,813</u>	<u>14,889</u>

Profit sharing plans and share based incentive system

As at 31 December 2011, certain Directors, members of Senior Management and other executives, employees and consultants of subsidiaries of ESFG have been granted rights to acquire a total of 2,650,000 Shares under a fixed share option plan adopted by the Board in April 2008 under which ESFG may grant options to executives, employees or consultants of ESFG or its subsidiaries to acquire up to 3,000,000 Shares. The exercise price of each option is EUR 13.20 (the market price of the Shares on the date of grant) and an option has a maximum term of 10 years. Options are granted at the discretion of the Board and have a vesting period of one year. Options when exercised are to be settled in cash.

The BES Group has established three incentives systems for their employees which apply regardless of the post or professional category of the employee. These are the Objectives and Incentives System (SOI), the Share-based Incentive System (SIBA), and the Variable Remuneration Payment Plan (PPRV – 2008/2010). The SOI scheme allows employees to share in BES Group's profits and takes into account individual performance. This is assessed

in both qualitative terms (through a professional rating given by the superior officer) and quantitative terms (commercial objectives, cost-to-income or service levels, depending on the department where the employee in question works).

The SIBA ended in December 2010. This plan allowed its employees to acquire BES shares with deferred settlement financed by it. The employees had to hold the shares for a minimum of two to four years after which they could sell the shares in the market and repay the debt. However, the employees had, after the referred period, the option to sell the shares back to BES at acquisition cost.

Following the shareholders general assembly held on 31 March 2008, the BES Group established the PPRV – 2008/2010. Under the PPRV – 2008/2010, employees of the BES Group have the right to a future cash payment, equivalent to the appreciation of BES shares above a strike price previously established. In order to receive this cash payment, the employees have to remain employed by the BES Group for a minimum of three years. The PPRV – 2008/2010 is within the scope of IFRS 2 and corresponds to a cash settlement. The fair value of the PPRV – 2008/2010, which was determined at the date of grant, is included in the BES Group's financial statements as a staff cost for a period of three years. The PPRV – 2008/2010 is valued at each balance sheet date and the fair value change is recognised in the heading “*net gains from financial assets at fair value through profit or loss*”.

MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

As of 21 May 2012, Espírito Santo International S.A. (Espírito Santo International) and its wholly owned subsidiary, Espírito Santo Irmãos SGPS, S.A. (Espírito Santo Irmãos) together held directly or indirectly 88,942,574 ordinary shares of no par value in the share capital of ESFG (the **Shares**), representing 42.95 per cent. of the issued share capital of ESFG.

Espírito Santo International, a limited liability corporation (*société anonyme*) incorporated under the laws of Luxembourg, as at 21 May 2012 held 37.87 per cent. of the Shares directly and the remaining 5.08 per cent. of the Shares, as at 21 May 2012 were held indirectly through Espírito Santo Irmãos, a limited liability corporation organised under the laws of Portugal.

Espírito Santo International is the immediate holding company of ESFG. Six of the directors of Espírito Santo International are also Directors. Espírito Santo International, as at 31 December 2011, was 53.07 per cent. owned, directly or indirectly, by members of the Espírito Santo family and certain Portuguese nationals close to the family (including certain of the directors of Espírito Santo International and ESFG). Private individuals not related to the family hold the balance of the shares in Espírito Santo International.

In so far as is known to ESFG, there are no other persons who, directly or indirectly, have an interest in the capital or voting rights in respect of five per cent. or more of ESFG's share capital.

Espírito Santo International's and Espírito Santo Irmãos' voting rights do not differ from those of other shareholders of ESFG.

ESFG does not know of any arrangements the operation of which may at a subsequent date result in a change of its control.

ESFG and its shareholders are bound by the laws of Luxembourg and by the rules against the abuse of majority shareholders rights which ensure that a majority shareholder may not abuse its shareholder rights.

Related party transactions

The ESFG Group has business relationships with a number of entities in which it owns significant equity interests, which own significant equity stakes in the ESFG Group, or with which it is otherwise associated. It also has business relationships with a number of entities in which members of the Board hold management positions. With the exception of the business relationships described below, none of these relationships are material to the ESFG Group or any related counterparty nor are any related party transactions considered by the ESFG Group to be unusual in their nature or conditions. Moreover, the ESFG Group conducts all of its business with these entities on terms equivalent to those that would exist if it did not have equity interests in them or they did not have equity stakes in the ESFG Group or management members in common and were not otherwise associated with them, and it has conducted business with these companies on that basis in each of 2009, 2010 and 2011.

The ESFG Group had balance sheet positions with related parties of EUR 3.3 billion in assets at 31 December 2010 and EUR 4.1 billion in assets at 31 December 2011, including EUR 1.5 billion at 31 December 2010 and EUR 1.8 billion at 31 December 2011 related to Espírito Santo International and other Espírito Santo International controlled companies, and liabilities of EUR 533.2 million at 31 December 2010 and EUR 406.1 million at 31 December

2011. The ESFG Group achieved interest income in the amount of EUR 148.1 million from related party transactions in 2010 and EUR 188.5 million in 2011.

ESFG's balance sheet exposure to related parties consists principally of loans to Espírito Santo International entities to finance long-term investments and construction projects, mainly in Portugal, loans and advances to associated companies and financial products issued by BES Vida, and includes:

- assets in the amount of EUR 951.5 million at 31 December 2010 and in the amount of EUR 895.9 million at 31 December 2011, to Espírito Santo International;
- assets in the amount of EUR 446.3 million at 31 December 2010 and in the amount of EUR 722.4 million at 31 December 2011, to Espírito Santo Resources Limited;
- assets in the amount of EUR 39.2 million at 31 December 2010 and in the amount of EUR 78.6 million at 31 December 2011, to Espírito Santo Property Holding, S.A.;
- assets in the amount of EUR 87.9 million at 31 December 2010 and in the amount of EUR 99.3 million at 31 December 2011, to Espírito Santo Irmãos;
- assets in the amount of EUR 198.0 million at 31 December 2010 and in the amount of EUR 221.9 million at 31 December 2011, to Ascendi Group (Ascendi Group SGPS and Ascendi Pinhal Interior), a motorway concession company in which the ESFG Group has a 40 per cent. participation;
- assets in the amount of EUR 140.0 million at 31 December 2010 and in the amount of EUR 142.3 million at 31 December 2011, to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A., a car rental company in which the ESFG Group has a 50 per cent. participation; and
- assets issued by BES Vida in the amount of EUR 989.0 million at 31 December 2010 and in the amount of EUR 1,407.4 million at 31 December 2011.

The terms and conditions of these loans and financial products are in line with market terms and conditions. In addition, the ESFG Group's balance sheet exposure includes loans by BES to directors of ESFG Group companies and companies controlled by non-executive directors of the BES Group.

Loans made directly to directors of ESFG Group companies amounted to EUR 5.9 million at 31 December 2010 and EUR 5.3 million at 31 December 2011.

All loans to related parties were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavourable features.

As of the date of this document, no other transactions with a related party which are material to the ESFG Group or the related counterparty or which are unusual in their nature or conditions have taken place or are being considered.

See Note 49 to the audited consolidated financial statements of ESFG for the year ended 31 December 2011 and Note 48 to the audited consolidated financial statements of ESFG for

the year ended 2010, which are incorporated by reference in this document in “*Incorporation by Reference*” for additional information on related party transactions.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following information is based on, and should be read together with, the consolidated financial statements of ESFG for the years ended 31 December, 2011 and 2010, which are incorporated by reference in this document as provided in “Incorporation by Reference”. Prospective investors should read the entire document and not just rely on the summary information set out below. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union.

In addition to historical information, the following discussion and other parts of this document contain forward-looking information that involves risks and uncertainties. Accordingly, the results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and the ESFG Group’s actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth under “Risk Factors”.

Overview

The ESFG Group’s origins date from 1869, when José Maria de Espírito Santo Silva founded a bank in Lisbon, which was BES’ predecessor. In the 1930s, the Espírito Santo family acquired a significant shareholding in Tranquilidade. After the Second World War, BES became one of Portugal’s largest commercial banks and Tranquilidade became one of its leading insurance companies. In 1975, the Portuguese government nationalised virtually all institutions in the domestic banking and insurance industries, including BES and Tranquilidade. The Espírito Santo family, deprived of its Portuguese base, began new operations outside Portugal, primarily in the financial services industry, and in 1984, ESFG was established.

In 1986, when the Portuguese government enacted legislation which once again permitted the private ownership of financial services companies, the ESFG Group recommenced its operations in Portugal through Banco Internacional de Crédito, S.A. (BIC) and BESI. In the same year, the Portuguese government began a programme of privatising state-owned companies which they had previously nationalised, including many in the financial services sector. In association with Crédit Agricole, a major French financial services group, and other investors, ESFG acquired control of Tranquilidade and BES between 1990 and 1992. In order to maximise its resources and gain access to additional sector know-how, the ESFG Group has made its primary investments in these companies primarily in association with strategic partners which have assisted the ESFG Group in formulating its strategy, particularly in connection with the development and marketing of products in the retail sector.

Currently, ESFG is a Luxembourg based financial holding company with banking, insurance and healthcare interests. It is the parent company of an integrated and internationally diversified financial services group with primary investments located in Portugal, as well as in countries with cultural and economic ties with Portugal, most of them with high growth potential (including Angola, Brazil and Mozambique). In addition, it has other investments in Spain, the United Kingdom, France, Switzerland, Poland, India, Libya, Panama, the United States, Dubai and Venezuela, among others. The ESFG Group had consolidated assets of EUR 84.0 billion as at 31 December 2011 (2010: EUR 86.5 billion; 2009: EUR 85.3 billion); and the ESFG Group had consolidated equity (attributable to equity holders of ESFG) of EUR 1.3 billion as at 31 December 2011 (2010: EUR 1.3 billion; 2009: EUR 1.6 billion). Consolidated net income (attributable to equity holders of ESFG) was EUR 121.4 million in 2011 (2010: EUR 136.7 million; 2009: EUR 157.5 million).

Principal Factors Affecting Results of Operations

Portugal's economic crisis and continuing challenges in the global economy and in financial markets

The ESFG Group's operations are concentrated mainly in Portugal. Accordingly, the performance of the Portuguese economy greatly impacts the ESFG Group's business, financial condition and results of operation. The Portuguese economy has been stagnant since the economic recession of 2007 and Portugal is experiencing unprecedented pressure on its public finances. Negative macroeconomic conditions in Portugal, higher unemployment, reduced corporate profitability and increased corporate and personal insolvency rates may significantly affect the ESFG Group's customers and therefore the level of demand for its products and services. As a result, limited growth in the loan portfolio and insurance and healthcare businesses is expected in the next several years. In addition, on 13 February 2012, Portugal's long-term debt rating was lowered by Moody's Investors Service to Ba3 from Ba2 (having reduced such rating from Baa1 to Ba2 in July 2011). On 13 January 2012, Standard & Poor's lowered its long-term debt rating for Portugal to BB from BBB-. On 24 November 2011, Fitch Ratings reduced its long-term debt rating to BB+ from BBB- (having reduced such rating from A- to BBB- on 1 April 2011) and DBRS Inc. reduced its long-term rating to BBB (low) from BBB on 30 January 2012. On 22 May 2012, DBRS Inc. placed its ratings of the Republic of Portugal's long-term foreign and local currency debt under review with negative implications. See "*Risk Factors—Risks relating to the ESFG Group—ESFG Group's borrowing costs and liquidity levels may be negatively affected by further downgrades of Portugal's sovereign ratings*".

These developments have resulted in:

- lower market values for Portuguese government debt;
- limited liquidity in the Portuguese banking system and a consequential increase in ECB funding;
- increased competition and thus a higher cost of customer deposits;
- limited credit extension to customers; and
- an increase in the amount of non-performing loans.

Since the beginning of the economic recession in 2007, there has been significant volatility in the financial markets around the world, resulting in difficult earnings conditions for the financial sector. While there was some recovery in the markets where the ESFG Group operated in 2010, there were significant differences in the strength of the recovery in the various national economies. This resulted in severe dislocation of financial markets around the world, significant declines in the values of nearly all asset classes and unprecedented levels of illiquidity in capital markets.

The financial crisis and the global recession have also had a negative impact on general and sector specific conditions in countries outside Portugal in which the ESFG Group operates, especially in Europe. This has resulted in lower demand for business products and services, lower personal expenditure and consumption, increases in the debt service burden of consumers and businesses and limitations on the general availability of credit. These factors have significantly affected the ESFG Group's customers and, by extension, the demand for,

and supply of, products and services and, in turn, the ESFG Group's business, financial condition and results of operations.

IMF/Eurozone Stabilisation Programme

In response to the deteriorating macroeconomic environment, on 5 May 2011, the Portuguese government agreed to the Stabilisation Programme, which provides financial support of EUR 78 billion over the three years following the agreement in the form of a package of IMF and EU funding, including a EUR 26 billion three-year loan under the IMF's Extended Fund Facility at an interest rate based on the Special Drawing Rights rate published by the IMF, with the remaining EUR 52 billion in funding being provided by the EU.

There are substantial macroeconomic risks associated with the Stabilisation Programme. These risks include lower revenue due to weaker growth, higher employee welfare costs, additional financial sector and public enterprise liabilities and fiscal data weaknesses. The challenge ahead will be whether the Stabilisation Programme can be implemented rigorously, while securing the necessary public consents for reform.

As part of the Stabilisation Programme, Portugal has committed to implement austerity measures designed to increase revenues, decrease expenses and reduce government debt. There can be no assurance regarding the extent to which the Stabilisation Programme's targets will be met or the impact such austerity measures may have on economic activity even if successfully implemented. The Portuguese economy may not grow sufficiently to allow the Portuguese government to service its debt. In addition, any further significant deterioration of global economic conditions, including in the credit profile of other EU countries or a break-up of the Eurozone or the demise of the euro may result in a default or rescheduling of the Portuguese government's debt, comprising either rescheduling or restructuring, which may include a change of terms or an extension of maturity.

A restructuring of Portugal's debt could include a rescheduling of principal and interest payments and/or a write-down of the interest rate or the principal due on maturity. A default, restructuring or a rescheduling of Portugal's debt would:

- directly impact the value of the ESFG Group's (primarily through the BES Group) portfolio of predominantly Portuguese government bonds (as of 31 December 2011, these totalled approximately EUR 3.1 billion). Any permanent reduction of the value of the government bonds would be reflected in ESFG's capital position;
- affect the ESFG Group's ability to raise and/or generate capital and meet minimum regulatory capital requirements;
- severely limit the ESFG Group's ability to access liquidity; and
- negatively affect the ESFG Group's capital positions, results of operations and financial condition.

Basel III implementation

In the third quarter of 2010, the Basel Committee on Banking Supervision made a number of decisions regarding the general functioning of the global financial system, that have resulted in a set of recommendations, entitled Basel III. Banks will have a transition period (from 1 January 2013 to 1 January 2019) to comply with the rules, aimed at strengthening the solvency of financial institutions and preventing financial crises in the future.

Basel III rules have established the following regulatory framework to be gradually implemented by 1 January 2019:

- minimum level for Core Tier I at 7 per cent., (4.5 per cent. minimum common equity and 2.5 per cent. capital conservation buffer);
- minimum level for Tier I at 8.5 per cent., (6 per cent. minimum and 2.5 per cent. capital conservation buffer);
- total capital ratio at 10.5 per cent.;
- introduction of a countercyclical buffer, ranging from 0 per cent. to 2.5 per cent. of common equity, under conditions to be defined by the national regulatory authorities;
- transition period defined for the absorption of deductions to capital not eligible under BIS III and for the new deductions to capital; and
- definition of the leverage and liquidity ratios (short and long-term) in certain conditions, to be defined.

The ESFG Group continues to closely follow the development process for the future regulatory framework, as well as all the efforts carried out to define the final rules for new capital ratios. Therefore, based on the available information, the ESFG Group is already developing internal studies regarding the impacts of the new regulations and the strategy to comply with the new requirements defined in the document released by the Basel Committee on 16 December 2010. This regulation is subject to approval by the European Commission and transcription into Portuguese law.

During the second quarter of 2011, as required by the signing of the Memorandum of Economic and Financial Policies (MEFP) between the Government of Portugal, the European Commission, the European Central Bank and the International Monetary Fund, the Bank of Portugal published its Notice 3/2011 where new minimum levels for Core Tier I for Portuguese regulated banking institutions were set: 9 per cent. by 31 December 2011 and 10 per cent. by 31 December 2012.

On 10 January 2012, the Bank of Portugal, taking into account the results of the EBA stress test, published Notice 5/2012 under which it confirmed the new minimum level of the Core Tier I capital ratio, set at 9 per cent., to be achieved by 30 June 2012.

ESFG Group's Core Tier I ratio calculated under the Basel II, IRB Foundation Method in May 2011, was 8.3 per cent. as at 31 December 2011.

On 26 April 2012, ESFG issued 102,040,816 New Shares. ESFG has applied the proceeds from the issue of the New Shares to strengthen its Core Tier I capital on a consolidated basis and, in particular, by subscribing for ESFG's full entitlement in BES' capital increase which completed on 11 May 2012, in order for ESFG to meet the required EBA Core Tier I capital ratio of 9 per cent. by 30 June 2012 and towards meeting the Bank of Portugal Core Tier I capital ratio of 10 per cent. by 31 December 2012.

On 26 April 2012, ESFG also announced that, based on risk weighted assets as at 31 December 2011, the issue of the New Shares results in ESFG's core capital position (CET1) increasing to 9.5 per cent. (including the sovereign capital buffer required by the EBA) and to 10.0 per cent. calculated under the Basel II, IRB Foundation Method.

ESFG will continue to adopt measures in order to meet the Bank of Portugal's minimum levels of Core Tier I capital. Credit institutions that fail to comply with these minimum Core Tier I capital requirements are subject to various measures that may be imposed by the Bank of Portugal, including in respect of the ESFG Group, possible restrictions on dividends and imposition of fines and other sanctions on, not only the bank, but also its directors and executive officers.

Rating agency downgrades

The ESFG Group may be subject to further credit rating downgrades, which would impact its ability to raise funding. On 7 October 2011, Moody's Investors Service announced that it had downgraded certain debt ratings of ESFG. ESFG's long-term rating was downgraded to B1 from Ba2, its senior subordinated debt was downgraded to B2 from Ba3, and the rating of its junior subordinated debt was downgraded to Caa1 from B2. All ratings carried a negative outlook for possible future downgrade. Moody's Investors Service maintained ESFG's short-term rating at NP. At the same time, Portugal's sovereign debt ratings were downgraded by Moody's Investors Service to Ba3 from Ba2 as announced on 13 February 2012 and referred to in "*Risk Factors – ESFG Group's borrowing costs and liquidity levels may be negatively affected by further downgrades of Portugal's sovereign ratings*". On 28 March 2012, ESFG's long-term rating was downgraded by Moody's Investors Service to B2 from B1 (negative outlook), its senior subordinated debt rating was downgraded to B3 from B2 (negative outlook) and the rating of its junior subordinated debt was downgraded to Caa2 from Caa1. Moody's Investors Service has maintained ESFG's short-term rating at NP.

On 7 October 2011, BES' long-term rating was downgraded by Moody's Investors Service to Ba2 from Ba1, its senior subordinated debt rating was downgraded to Ba3 from Ba2, its junior subordinated debt rating was downgraded to B1 from Ba3 and its government backed senior unsecured debt rating was downgraded to Ba2 from Ba1. Moody's Investors Service downgraded BES' standalone bank financial strength to D- from D+. All ratings carried a negative outlook for possible future downgrade. On 28 March 2012, Moody's Investors Service also downgraded BES' standalone bank financial strength rating (BFSR) to E+ (B1) from D- (Ba3) (negative outlook), its long-term rating to Ba3 from Ba2 (negative outlook), its senior subordinated debt to B2 from Ba3 (negative outlook), its junior subordinated debt to B3 from B1 and its government backed senior unsecured debt rating to Ba3 from Ba2 (negative outlook).

Additionally, DBRS Inc. initiated ratings coverage on the ESFG Group on 20 April 2011, assigning a senior long-term debt rating of BBB(high) and a short-term debt rating of R-2(high), with a negative trend on all ratings. On 9 May 2011, DBRS Inc. assigned a BBB rating with a negative trend to ESFG's EUR 400 million 6.875 per cent. Subordinated Notes due 2019 (of which EUR 351,100,000 remain outstanding). On 20 October 2011, DBRS Inc. announced that it had downgraded the ratings of ESFG, following the downgrade of the Republic of Portugal. The senior long-term rating has been downgraded to BBB from BBB (high), with the trend remaining negative. DBRS Inc. has confirmed the short-term instruments rating of R-2 (high) with a negative trend. On 31 January 2012, DBRS Inc. announced that it had downgraded the ratings of ESFG, following the downgrade of Portugal. The short-term instruments rating of ESFG was downgraded to R-2 (middle) from R-2 (high) and the senior long-term rating of ESFG was downgraded to BBB (low) from BBB, with a negative trend on all ratings. On 21 March 2012, DBRS lowered ESFG's intrinsic assessment (IA) to BBB (low) from BBB (high). DBRS has maintained ESFG's short-term instruments rating at R-2 (middle) and its senior long-term rating at BBB (low), with a negative trend on all ratings. On 24 May 2012, DBRS Inc. announced that it had placed its ratings of ESFG under review with negative implications following a similar rating action on the Republic of

Portugal on 22 May 2012. On 31 January 2012, DBRS, Inc. announced that it had downgraded the ratings of BES, following the downgrade of Portugal. The short-term debt and deposit rating of BES was downgraded to R-2 (middle) from R-2 (high) and the senior long-term debt and deposit rating of BES was downgraded to BBB (low) from BBB, with a negative trend on all ratings. On 24 May 2012, DBRS Inc. announced that it had placed its ratings of BES under review with negative implications following a similar rating action on the Republic of Portugal on 22 May 2012.

On 14 February 2012, Standard & Poor's announced that it had downgraded certain ratings of BES, following the downgrade of Portugal. BES' long-term counterparty credit rating was downgraded to BB- from BB with a negative outlook, its issue ratings on senior debt was downgraded to BB- from BB, its non-deferrable subordinated debt rating was downgraded to B from B+ and its hybrid instruments rating was downgraded to B- from B. BES' short-term rating of B was affirmed.

There can be no guarantee that the ESFG Group will not be subject to further downgrades, and any further downgrades could affect:

- the amount and price of ESFG's funding and limit its access to the capital and funding markets;
- trigger material collateral requirements in derivative contracts or other secured-funding arrangements; and
- lead to significant withdrawals of customer deposits with the ESFG Group adversely affecting its liquidity position.

Asset quality and provision coverage

Due to the expected deterioration in macroeconomic conditions in Portugal, the ESFG Group expects some level of asset quality deterioration in BES' domestic business. Although overall asset quality has remained resilient to date, global economic conditions have impacted the level of overdue loans globally, with overdue loans of over 90 days increasing during the period under review. Despite this increase, BES' asset quality has outperformed the Portuguese market.

In anticipation of the expected deterioration in asset quality, BES has increased its provisions reserve to cover 4.23 per cent. of gross loans, which is one of the highest provisioning levels among Iberian banks. BES' total provisions reserve increased to EUR 2.2 billion as of 31 December 2011, an increase of 22 per cent. compared to the year ended 31 December 2010.¹

Factors Influencing Comparability

First time consolidation of Pastor Vida

In December 2010, Tranquilidade acquired 50 per cent. of the share capital of Pastor Vida S.A. de Seguros y Reaseguros (Pastor Vida), a Spanish life insurance company, and it has been fully consolidated as the ESFG Group took management control. The revenue and profit

¹ Based on the restated figures for the year ended 31 December 2010 in the consolidated financial statements of BES for the year ended 31 December 2011. 2010 figures were restated due to the accounting policy changes related to actuarial deviations determined in post employment benefits, which are now recognised under Other Comprehensive Income (OCI). As determined for in IAS 8, changes in accounting policies with material impact require the restatement of prior periods for comparison purposes.

of Pastor Vida was not included in the consolidated income statement for the year ended 31 December 2010, and Pastor Vida contributed EUR 23.0 million in revenue and EUR 2.2 million in profit to the ESFG Group's consolidated income statement for the year ended 31 December 2011. Banco Popular Español, S.A. (Banco Popular) has acquired 100 per cent. of Banco Pastor, S.A. (Banco Pastor) and Banco Popular has its own *bancassurance* operations. As a result of this change of control, the ESFG Group has the right to require Banco Pastor to purchase its interest in Pastor Vida. The timing of the purchase, and the amount to be paid, has yet to be determined by the parties.

Segment Reporting

The ESFG Group's activities are focused primarily on the banking, insurance and healthcare sectors and are directed to companies, institutional and private customers. When evaluating performance by business area, the ESFG Group considers the following operating segments:

- Domestic Commercial Banking, including retail, corporate institutional and private banking;
- Asset Management;
- International Commercial Banking, including private banking;
- Investment Banking;
- Capital Markets and Strategic Investments;
- Non-Life Insurance;
- Life Insurance; and
- Healthcare Management.

Each segment includes the ESFG Group structures that directly or indirectly relate to it, and also the other units of the ESFG Group whose activities are most related to one of these segments. The performance of each operating unit of the ESFG Group (considered as an investment centre) is evaluated individually.

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

For further details on the ESFG Group's operating segments, see Note 4 to the consolidated financial statements for the years ended 31 December, 2011 and 2010, incorporated by reference herein.

Explanation of Key Income Statement Items and Other Financial Items

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

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

For derivative financial instruments, except for derivatives for risk management purposes, 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.

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; and
- 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.

Dividend income

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

Provisions

Provisions are recognised when: (i) the ESFG Group has a 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.

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

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

Income tax

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

Results of Operations

The following table sets out, for the periods indicated, the ESFG Group's income and expense items:

CONDENSED CONSOLIDATED INCOME STATEMENT:	For the years ended 31 December		
	2009	2010 (as restated) ¹	2011
	(in thousands of euro)		
Interest and similar income	3,949,582	3,838,928	4,247,075
Interest expense and similar charges	2,720,997	2,649,887	3,002,789
Net interest income	1,228,585	1,189,041	1,244,286
Dividend income	89,885	194,738	169,208
Fee and commission income	830,289	940,092	943,904
Fee and commission expenses	(109,567)	(121,782)	(134,157)
Net (losses) from financial assets and financial liabilities at fair value through profit or loss	(44,761)	(197,574)	(193,322)
Net gains from available-for-sale financial assets	193,539	374,318	(64,476)
Net gains from foreign exchange differences	82,137	55,334	(27,714)
Net (losses) from the sale of other assets	(27,468)	(12,773)	(91,896)
Insurance earned premiums, net of reinsurance	309,289	325,168	352,112
Other operating income	400,214	354,080	940,873
Operating income	2,952,142	3,100,642	3,138,818
Operating expenses	2,483,430	2,458,982	2,892,680
Gains on disposal of investments in subsidiaries and associates	199,578	46,401	1,305
Share of profit of associates	33,460	37,592	(38,639)
Profit before income tax	701,750	725,653	208,804
Income tax			
Current tax	186,306	68,558	90,900
Deferred tax	(65,229)	(17,064)	(142,509)
	121,077	51,494	(51,609)
Profit for the year/period	580,673	674,159	260,413
Attributable to equity holders of the Company	157,477	136,739	121,352
Attributable to non-controlling interest	423,196	537,420	139,061
	580,673	674,159	260,413
Earnings per share of profit attributable to the equity holders of the Company			
Basic (in euro)	1.60	1.33	2.51
Diluted (in euro)	1.60	1.23	2.51

¹Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

Comparison of results of operations

Foreign currency translation

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

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

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

Results of operations for the years ended 31 December 2011, 2010 and 2009

Net interest income

The following table sets out, for the periods indicated, the components of the ESFG Group's net interest income:

	For the years ended 31 December		
	2009	2010 (as restated)¹	2011
	(in thousands of euro)		
Interest and similar income			
Interest from loans and advances	2,263,746	2,111,994	2,790,997
Interest from deposits with banks	102,428	67,701	71,471
Interest from financial assets at fair value through profit or loss	324,063	270,458	190,434
Interest from available-for-sale financial assets	200,528	326,877	471,397
Interest from held to maturity.....	92,525	115,614	100,948
Interest from derivatives for risk management purposes....	931,950	918,685	582,501
Other interest and similar income	34,342	27,599	39,327
	3,949,582	3,838,928	4,274,075

For the years ended 31 December			
	2009	2010 (as restated)¹	2011
(in thousands of euro)			
Interest expense and similar charges			
Interest from debt securities.....	906,816	980,537	890,567
Interest from amounts due to customers.....	465,711	507,124	1,036,098
Interest from deposits from central banks and other banks.....	283,143	201,498	461,654
Interest from subordinated debt.....	143,710	143,524	103,686
Interest from derivatives for risk management purposes....	901,284	804,898	498,057
Other interest expenses and similar charges.....	20,333	12,306	12,727
	2,720,997	2,649,887	3,002,789
Net interest income	1,228,585	1,189,041	1,244,286

¹ Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

Net interest income increased by EUR 55.2 million, or 4.6 per cent., to EUR 1,244.3 million in 2011 from EUR 1,189.0 million in 2010 primarily as a result of increases in commercial banking income, interest earned from assets and net fees and commissions. Consolidated commercial banking income, including market results, increased by 2.3 per cent. to EUR 2.05 billion in 2011 (EUR 2.01 billion in 2010).

BES reported a consolidated net loss of EUR 108.8 million for the year ended 31 December 2011. This decline is the result of uncertainty and high risks in the eurozone, the deleveraging process in the Portuguese financial system, the requirement to reinforce Portuguese banks capitalisation levels, the introduction of more conservative criteria for impairment calculation and the transfer of the banks' pension funds to Social Security, among other factors. BES' domestic commercial banking income totalled a profit of EUR 124.8 million, while its non-Portuguese commercial banking income totalled EUR 726.3 million. In 2011, the strategic triangle of Iberia, South America and Africa, made up 75.4 per cent. of the international contribution at BES. For a further breakdown of net interest income by operating segment, see Note 4 to the consolidated financial statements for the year ended 31 December 2011, incorporated by reference herein.

Net interest income decreased by EUR 39.5 million, or 3.2 per cent., to EUR 1,189.0 million in 2010 from EUR 1,228.6 million in 2009 primarily as a result of the negative impact of solvency concerns of the European banking sector and concerns over peripheral European sovereign debt on the interbank market resulting in significant increases in financing costs. Consolidated banking income, including market results, increased by 3.3 per cent. to EUR 2.22 billion in 2010 (EUR 2.15 billion in 2009). BES was the most significant contributor to ESFG's net income, with all other banking interests contributing positively, though to a lesser degree.

Despite the financial challenges experienced by southern European banks, BES reported consolidated net income of EUR 556.9 million for the year ended 31 December 2010². This represents a gain of 6.7 per cent., as BES continued to pursue its strategic geographical

² Based on the restated figures for the year ended 31 December 2010 in the consolidated financial statements of BES for the year ended 31 December 2011. 2010 figures were restated due to the accounting policy changes related to actuarial deviations determined in post employment benefits, which are now recognised under Other Comprehensive Income (OCI). As determined for in IAS 8, changes in accounting policies with material impact require the restatement of prior periods for comparison purposes.

diversification central to its long-term profitability. BES' non-Portuguese commercial banking income represented 38.0 per cent. of total income on a recurrent basis. In 2010, the strategic triangle of Iberia, South America and Africa, made up 67.7 per cent. of the international contribution at BES and 27.0 per cent. of BES' overall results. For a further breakdown of net interest income by operating segment, see Note 4 to the consolidated financial statements for the year ended 31 December 2010 incorporated by reference herein.

Net fee and commission income

The following table sets out, for the periods indicated, the components of the ESFG Group's fee and commission income and expenses:

	For the years ended 31 December		
	2010		
	2009	(as restated)¹	2011
	(in thousands of euro)		
Fee and commission income			
From banking services	526,884	555,787	516,850
From guarantees granted.....	128,642	188,703	221,259
From transactions with securities.....	38,915	49,015	70,197
From commitments assumed to third parties	34,905	46,641	46,666
Other fee and commission income.....	100,943	99,946	88,932
	830,289	940,092	943,904
Fee and commission expenses			
From banking services rendered by third parties	71,341	73,767	81,130
From transactions with securities.....	21,256	25,164	25,289
From guarantees received	1,434	1,699	9,212
Other fee and commission expense.....	15,536	21,152	18,526
	109,567	121,782	134,157
Net fee and commission income	720,722	818,310	809,747

¹ Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

Net fee and commission income decreased by EUR 8.6 million, or 1 per cent., to EUR 809.7 million in 2011 from EUR 818.3 million in 2010 primarily as a result of slight declines in contributions from collections, documentary credit, *bancassurance* and commission on loans and asset management.

Net fee and commission income increased by EUR 97.6 million, or 13.5 per cent., to EUR 818.3 million in 2010 from EUR 720.7 million in 2009 primarily as a result of growth in documentary credit and strong increases in guarantees and commissions on loans. Documentary credit, guarantees, commissions on loans and *bancassurance* were key drivers, and growth in commissions from international trade was a result of ESFG's efforts to support the internationalisation of Portuguese companies.

Other income

The following table sets out, for the periods indicated, a breakdown of the components of the ESFG Group's other income:

	For the years ended 31 December		
	2009	2010 (as restated) ¹	2011
	(in thousands of euro)		
Other income			
Dividend income	89,885	194,738	169,208
Net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss	(44,761)	(197,574)	(193,322)
Net gains from available-for-sale financial assets	193,539	374,318	(64,476)
Net gains from foreign exchange differences	82,137	55,334	(27,714)
Net gains/(losses) from the sale of other assets	(27,468)	(12,773)	(91,896)
Insurance earned premiums, net of reinsurance	309,289	325,168	352,112
Other operating income	400,214	354,080	940,873
Total	1,002,835	1,093,291	1,084,785

¹ Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

The decrease in other income was primarily driven by a decrease in gains from available-for-sale financial assets of EUR 438.8 million to a loss of EUR 64.5 million in 2011 from EUR 374.3 million in 2010 compensated by other operations which rose from EUR 354.1 million to EUR 940.9 million, particularly due to gains on the repurchase of the ESFG Group's debt securities in the fourth quarter of 2011.

Decreases in dividend income by EUR 25.5 million to EUR 169.2 million in 2011 and foreign exchange differences by EUR 83.0 million to a loss of EUR 27.7 million in 2011 also contributed to the overall decrease.

The ESFG Group recorded a decreased net loss from financial assets and liabilities at fair value of EUR 193.3 million in 2011 compared to EUR 197.6 million in 2010. The ESFG Group's other operating income increased by EUR 586.8 million, or 166 per cent., to EUR 940.9 million in 2011 from EUR 354.1 million in 2010, primarily as a result of gains on the repurchase of ESFG Group debt securities.

In 2010, the increase in other income was primarily driven by an increase in net gains from available-for-sale financial assets of EUR 180.8 million, or 93.4 per cent., to EUR 374.3 million in 2010 from EUR 193.5 million in 2009 primarily as a result of the sale of ordinary shares in EDP, Portugal Telecom and Bradesco for a realised net gain of EUR 287.6 million. Increases in dividend income by EUR 104.9 million to EUR 194.7 million in 2010, and insurance earned premiums, net of reinsurance, by EUR 15.9 million, or 5.1 per cent., to EUR 325.2 million in 2010 also contributed to the overall increase.

The ESFG Group recorded an increased net loss from financial assets and liabilities at fair value of EUR 197.6 million in 2010 compared to a loss of EUR 44.8 million in 2009. The ESFG Group's other operating income decreased by EUR 46.1 million, or 11.5 per cent., to EUR 354.1 million in 2010 from EUR 400.2 million in 2009, primarily as a result of decreasing gains realised on the repurchase of the ESFG Group's debt securities but offset in part by increased income from the medical services business.

Operating income

As a result of the foregoing factors the ESFG Group's operating income increased by EUR 38.2 million, or 1.2 per cent., to EUR 3,138.8 million in 2011 from EUR 3,100.6 million in 2010 following an increase of EUR 148.5 million, or 5 per cent., from EUR 2,952.1 million in 2009.

Operating expenses

The following table sets out, for the periods indicated, the ESFG Group's operating expenses:

	For the years ended 31 December		
	2009	2010 (as restated)¹	2011
	(in thousands of euro)		
Staff costs	722,658	735,839	753,410
General and administrative expenses.....	459,113	495,425	490,642
Claims incurred net of reinsurance	220,643	238,404	289,273
Change in the technical reserves net of reinsurance.....	(7,682)	2,477	(53,531)
Insurance commissions.....	33,391	34,736	39,107
Depreciation and amortisation.....	123,842	139,512	151,540
Provisions net of reversals	53,005	55,099	10,668
Loans impairment net of reversals and recoveries	531,642	338,459	578,383
Impairment on other financial assets net of reversals.....	72,138	79,390	85,423
Impairment on other assets net of reversals.....	49,512	60,839	167,604
Other operating expenses.....	225,168	278,802	380,161
Operating expenses	2,483,430	2,458,982	2,892,680

¹ Figures for the year ended 31 December 2010 are as restated in the consolidated financial statements of the ESFG Group for the year ended 31 December 2011, as a result of changes in accounting policy for the recognition of actuarial differences. The new accounting policy impacted on accounts as of the beginning of January 2011, the amortisation of actuarial differences accounted for as Staff Costs in 2011 was reversed and therefore the 2010 accounts were adjusted for comparison purposes.

Operating expenses increased by EUR 433.7 million, or 17.6 per cent., to EUR 2,892.7 million in 2011 from EUR 2,459.0 million in 2010 primarily due to increased provisioning charges and a new accounting policy on the amortisation of actuarial differences on pension liabilities at BES. Loan impairments increased by EUR 239.9 million, or 70.9 per cent., to EUR 578.4 million in 2011 from EUR 338.5 million in 2010 due to the continued effort to reinforce provisions at the BES level in light of the deterioration of macro conditions.

In 2010, operating expenses declined to EUR 2,459.0 million compared to EUR 2,483.4 million in 2009, primarily due to a reduction in loan impairments, net of reversals and recoveries, to EUR 338.5 million in 2010.

Gain on disposal of investments in subsidiaries and associates

ESFG's gain on disposal of investments in subsidiaries and associates decreased by EUR 45.1 million to EUR 1.3 million in 2011 from EUR 46.4 million in 2010.

In 2010, ESFG's gain on disposal of investments in subsidiaries and associates decreased by EUR 153.2 million to EUR 46.4 million from EUR 199.6 million in 2009.

Share of profit of associates

ESFG's share of profit of associates decreased by EUR 76.2 million to a loss of EUR 38.6 million in 2011 from EUR 37.6 million in 2010.

In 2010, ESFG's share of profit of associates increased by EUR 4.1 million, or 12.3 per cent., to EUR 37.6 million from EUR 33.5 million in 2009.

Profit before income tax

As a result of the foregoing factors, ESFG's profit before income tax decreased by EUR 516.8 million, or 71.2 per cent., to EUR 208.8 million in 2011 from EUR 725.7 million in 2010, which was an increase of EUR 23.9 million, or 3.4 per cent., from EUR 701.8 million in 2009.

Income tax

Income taxes recognised as costs decreased by EUR 103.1 million, or 200.2 per cent., to a gain of EUR 51.6 million in 2011 from a cost of EUR 51.5 million in 2010, following a decrease by EUR 69.6 million, or 57.5 per cent., from a cost of EUR 121.1 million in 2009.

For more detailed information on ESFG's tax payments and the application of its deferred tax liabilities, see Note 42 to the consolidated financial statements for the years ended 31 December 2011 and 2010, incorporated by reference herein.

Profit for the year

As a result of the foregoing factors, ESFG's profit for the year decreased by EUR 413.7 million, or 61.4 per cent., to EUR 260.4 million in 2011 from EUR 674.2 million in 2010, following an increase of EUR 93.5 million, or 16.1 per cent., from EUR 580.7 million in 2009.

Liquidity and Capital Resources

Cash flows

The following table sets forth the most significant components of the ESFG Group's cash flows for the periods indicated:

	For the years ended 31 December		
	2009	2010	2011
	(in thousands of euro)		
Net cash from operating activities	(8,293,368)	11,466,299	5,516,949
Net cash from investing activities.....	(1,178,792)	(3,042,081)	337,536
Net cash from financing activities	9,691,659	(9,205,226)	(5,598,875)
Effect of exchange rate changes on cash and cash equivalents	(5,215)	47,020	32,891
Net increase in cash and cash equivalents	214,284	(733,988)	288,501

Net cash from operating activities totalled EUR 5,516.9 million in 2011 compared to net cash from operating activities of EUR 11,466.3 million in 2010, which was due primarily to a substantial decrease in loans and advances to banks in 2010 and a small increase in loans to

customers in 2011. Net cash from operating activities totalled EUR 11,466.3 million in 2010 compared to net cash used in operating activities of EUR 8,293.4 million in 2009, which was due primarily to an increase in deposits with central banks, loans and advances to banks and amounts due to customers.

Net cash from investing activities totalled EUR 337.5 million in 2011 compared to net cash used in investing activities of EUR 3,042.1 million in 2010. Net cash used in investing activities totalled EUR 3,042.1 million in 2010 compared to EUR 1,178.8 million in 2009 due primarily to an increase in the purchase of financial assets available for sale and partially offset by increased gains in the sale of financial assets available for sale.

Net cash used in financing activities totalled EUR 5,598.9 million in 2011 compared to net cash from financing activities of EUR 9,205.2 million in 2010. Net cash used in financing activities totalled EUR 9,205.2 million in 2010 compared to net cash from financing activities of EUR 9,691.7 million in 2009 due primarily to an increase in debt increase in debt securities paid and a decline in debt securities issued.

Funding

ESFG raises funds by issuing ordinary and preferred shares and senior, subordinated and deeply subordinated notes in the international capital markets. It uses these funds to fund investments and to meet the capital requirements set and regulated by the Bank of Portugal. At the end of July 2009, ESFIL and ESFG established a EUR 1 billion Euro Commercial Paper Programme (ECP Programme). Commercial paper issued by ESFIL under the ECP Programme is unconditionally and irrevocably guaranteed by ESFG. The amount of short-term debt outstanding under the ECP Programme, issued by ESFIL, at 31 December 2011 was EUR 453.2 million. On 6 May 2011, ESFG and ESFIL established this EMTN Programme and on 31 May 2011 ESFIL issued EUR 100 million 7.00 per cent. Fixed Rate Notes due 31 May 2013 under the EMTN Programme which are guaranteed by ESFG. The following table shows all of the ESFG sources of funds as at 31 December, 2009, 2010 and 2011:

	As at 31 December		
	2009	2010	2011
	(in millions of euro)		
Funding Sources			
Convertible Debt	500.0	500.0	311.8
Subordinated Debt (Tier II)	400.0	400.0	351.1
Preferred Shares (Tier I)	400.0	400.0	74.3
Share Capital*	778.5	778.5	806.0
Total	2,078.5	2,078.5	1,543.5

*Including non-distributable capital reserve

See “*Capitalisation and Indebtedness*” which sets out the capitalisation and indebtedness of ESFG and its consolidated subsidiaries at 31 December 2011.

The following table sets out the outstanding debt and commercial paper obligations of ESFIL and ESFG:

Outstanding ESFG and Guaranteed Debt	Maturity	Amount
		(in millions)
ESFIL 7.0% (Guaranteed by ESFG).....	May 2013	EUR 100.0
ESFG 6.875%	October 2019	EUR 351.1
ESFG 5.05%	November 2025	EUR 181.4
ESFG 9.75%	December 2025	EUR 130.4
ESFG International Limited 5.753% (Guaranteed by ESFG).....	Perpetual (callable in 2017)	EUR 74.3
Outstanding Euro Commercial Paper Guaranteed by ESFG		
ESFIL (Guaranteed by ESFG).....	-	EUR 168.0
ESFIL (Guaranteed by ESFG).....	-	USD 369.5

ESFG Group's banking subsidiaries, the BES Group, have established a funding policy for all types of liabilities, from customer funding (customer deposits) to issuing ordinary and preferred shares and the use of financing instruments in the financial markets. The funding mechanisms used by the BES Group include interbank lines, certificates of deposit and commercial paper programmes (ECP and USCP) for short-term funding and the euro medium term note programme (for issuing senior and subordinated debt), credit lines, covered bonds and other instruments for medium- and long-term funding.

In light of recent volatility and disruption in the global capital and credit markets, the BES Group has actively continued to promote the diversification of its funding sources as part of its prudent liquidity management policy in order to ensure a high-quality, liquid asset base. To strengthen its liquidity position and reinforce contingency tools under stress scenarios the BES Group has undertaken additional funding initiatives, such as increasing assets eligible for rediscount with the ECB and the Federal Reserve notably through securitising portions of its securities and loan portfolio.

Liquidity

After a two year period of maintaining the reference rate at historical lows, the ECB raised the refinancing rate from 1 per cent. to 1.25 per cent. on 7 April 2011 and to 1.5 per cent. on 7 July 2011. This rise was justified by the need to adjust the expansionary monetary policy adopted in the recent past, and the ECB reaffirmed its objective to maintain price stability and control inflationary pressures. The ECB lowered the refinancing rate from 1.5 per cent. to 1.25 per cent. on 3 November 2011, and lowered the rate further, from 1.25 per cent. to 1 per cent., on 8 December 2011.

The approval of the assistance package to Portugal did not allay market fears around the peripheral economies, spreading to other peripheral EU economies, namely Spain and Italy. This feeling of uncertainty continued throughout the second quarter and culminated in July with an increase in the support for Greece and the lengthening of maturities on loans provided to Greece, Ireland and Portugal.

Sovereign debt yields of Greece, Portugal, Ireland, Italy and Spain reached historical highs at the end of the second quarter. The situation was worsened by cuts in ratings in April 2011, with Fitch reducing Portugal sovereign rating by 3 notches to BBB- and Moody's Investors Service to Baa1 from A3. In July 2011 Moody's Investors Service reduced the sovereign rating of Portugal to Ba2 (outlook negative) and in November 2011 Fitch reduced the

sovereign rating of Portugal to BB+ (outlook negative). In 13 February 2012, Moody's Investors Service reduced the sovereign rating of Portugal to Ba3 (outlook negative).

During this period, access to the repo facilities at the ECB continued to be fundamental to offset the inaccessibility to the interbank money markets in the short and medium term. During 2011, BES increased the amount outstanding with the ECB by EUR 4.0 billion to EUR 8.8 billion as at 31 December 2011. Following the ECB's long-term refinancing operation of 29 February 2012, BES' total amount outstanding of long-term borrowings with the ECB was EUR 10.2 billion.

The following table sets forth the BES Group's medium and long-term debt maturing in 2012 by quarter:

<u>Medium and long-term debt maturing in:</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	(in billions of euro)			
2012	2.8 ⁽¹⁾	0.5	0.2	0.0

Notes:

(1) Already repaid.

As at 31 December 2011, the portfolio of repoable securities totalled EUR 18.9 billion, of which EUR 15.1 billion were eligible for rediscount with the ECB. At December 2011 the use of ECB facilities (including the first of the ECB's two LTRO liquidity facilities of 21 December 2011) amounted to EUR 8.8 billion. The following table sets forth the ESFG Group's repoable securities for the periods indicated:

<u>Repoable securities</u>	<u>As at 31 Decembe r 2010</u>	<u>As at 31 Decembe r 2011</u>
	(in billions of euro)	
ECB Eligible.....	10.8	15.1
Total.....	16.5	18.9

Capital, solvency ratios and core capital position

Portuguese credit institutions are subject to solvency ratio requirements that conform to EU standards. The solvency ratio is defined as Tier I capital plus Tier II capital divided by risk-weighted assets and the minimum required ratio is currently 8 per cent.

- At 31 December 2011, the ESFG Group's Core Tier I ratio and Tier I ratio were 8.3 per cent. and 8.6 per cent., respectively, calculated under the Basel II, IRB Foundation Method.
- At 31 December 2011, the BES Group's Core Tier I ratio and Tier I ratio were 9.2 per cent. and 9.4 per cent., respectively, under the Basel II, IRB Foundation Method.

As discussed above, the Basel Committee announced recently a substantial strengthening of existing capital rules, particularly as a result of the capital structure weaknesses demonstrated by the banking sector during the recent financial crisis. In addition, in May 2011, the Bank of Portugal published Notice 3/2011 under which new minimum levels of Core Tier I capital for Portuguese regulated banking institutions were set at 9 per cent. by 31 December 2011 and

10 per cent. by 31 December 2012 and on 10 January 2012, the Bank of Portugal, taking into account the results of the EBA stress test, published Notice 5/2012 under which it confirmed the new minimum level of the Core Tier I capital ratio, set at 9 per cent., by 30 June 2012.

Credit institutions that fail to comply with these requirements are subject to various measures that may be imposed by the Bank of Portugal, including possible restrictions on dividends and imposition of fines and other sanctions on, not only the bank, but also its directors and executive officers.

The core capital position (CET1) of ESFG, as of 30 September 2011, was 7 per cent. (6.7 per cent. when calculated to include the sovereign capital buffer required by the EBA). During the last quarter of 2011, ESFG completed the Shares Exchange Offer which resulted in EUR 375 million of additional new capital at the ESFG level and in the last quarter of 2011, BES completed its exchange offers which resulted in EUR 619 million of additional new capital at the BES level. The consolidated impact at ESFG was to increase its CET1 by 147 basis points. Also during the last quarter of 2011, ESFG completed the Exchange Offer and the Tender Offer which resulted in a further EUR 164.0 million of additional new capital at the ESFG level. The consolidated impact at ESFG was to increase its CET1 by a further 25 basis points. At 31 December 2011, ESFG's CET1 was 8.3 per cent. which included the deduction of 41 basis points, or EUR 402 million, principally attributable to ESFG's excess exposure to related parties.

Significant Accounting Policies

Impairment of available-for-sale financial assets

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

Considering the high volatility of the markets, the ESFG Group has considered the following parameters when assessing the existence of impairment losses:

- (i) Equity securities: declines in market value above 30 per cent. in relation to the acquisition cost or market value below the acquisition cost for a period longer than twelve-months;
- (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 judgment in making estimates of fair value.

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

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 judgments in estimating fair values.

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

Impairment losses on loans and advances

The ESFG Group reviews its loan portfolios to assess impairment on a regular basis.

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

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

Securitisations and special purpose entities (SPE)

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

The ESFG Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the ESFG Group does control a SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. For further details see Note 2.2 to the consolidated financial statements for the year ended 31 December 2011, incorporated by reference herein.

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

Held-to-maturity investments

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

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

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

Income taxes

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

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

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

ESFG itself is subject to the general tax regulations applicable to Luxembourg commercial companies. The applicable tax rate is 28.8 per cent.

Pension and other employees' benefits

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

Changes in these assumptions could materially affect these values.

Insurance and investment contracts liabilities

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

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

In determining their insurance reserves and investment contracts liabilities, the ESFG Group's insurance companies perform a continuing review of their overall positions, their reserving

techniques and their reinsurance coverage. The reserves are also reviewed periodically by qualified actuaries.

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

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

TAXATION

EU Savings Directive

Under the European Council Directive 2003/48/EC on the taxation of savings income (the “EU Savings Directive”), Member States of the European Union (“Member States”) are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or for the benefit of, an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries), deducting tax at a rate of 35 per cent.

A number of non-EU countries including Switzerland, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entities established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the “Laws”), there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EU Savings Directive and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of Member States (the “Territories”), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal

authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 35 per cent. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended by the law of 17 July 2008 (the “Law”), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is a resident of Luxembourg or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC, as replaced by the Council Directive 2009/65/EC or for the exchange of information regime) will be subject to a withholding tax of 10 per cent. (the “10% Luxembourg Withholding Tax”). Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

Taxation of the holders of Notes

Taxation of Luxembourg non-residents

Holders of Notes who are non-residents of Luxembourg and who have neither a permanent establishment, a permanent representative nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable for any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption or repurchase of the Notes, or realize capital gains on the sale of any Notes.

Taxation of Luxembourg residents

Holders of Notes who are residents of Luxembourg will not be liable for any Luxembourg income tax on repayment of principal.

Luxembourg resident individuals

Pursuant to the Law, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10 per cent. tax (the “10% Tax”) on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the EU Savings Directive) located in a Member State other than Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an international agreement directly related to the EU Savings Directive. The 10% Luxembourg Withholding Tax or the 10% Tax represents the final tax liability on interest received for the Luxembourg resident individuals receiving the interest payment in the course of their private wealth.

Individual Luxembourg resident holders of Notes receiving the interest as business income must include this interest in their taxable basis. If applicable, the 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg resident individual holders of Notes are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of the Notes. Upon the sale, redemption or exchange of the Notes, accrued but unpaid interest will be subject to the 10% Luxembourg Withholding Tax or to the 10% Tax if the Luxembourg resident individuals opt for the 10% Tax. Individual Luxembourg resident holders of Notes receiving the interest as business income must include the portion of the price corresponding to this interest in their taxable income. The 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg resident companies

Luxembourg resident companies (*société de capitaux*) holders of Notes or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest (including accrued but unpaid interest) and the difference between the sale or redemption price (received or accrued) and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg resident companies benefiting from a special tax regime

Holders of Notes who are undertakings for collective investment subject to the law of 17 December 2010 or to the law of 13 February 2007 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax), other than the subscription tax calculated on their (paid up) share capital (and share premium or) net asset value. This annual tax is paid quarterly on the basis of the total net assets as determined at the end of each quarter. Holders of Notes who are companies subject to the law of 11 May 2007 on family estate management companies are also not subject to income tax and are liable only for the so-called subscription tax at the rate of 0.25 per cent.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a holder of Notes, unless (i) such holder is a Luxembourg fully taxable resident company other than a securitisation vehicle governed by the law of 22 March 2004 or (ii) such Notes are attributable to an enterprise or part thereof which is carried on through a Luxembourg permanent establishment or a permanent representative by a non-resident company.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by holders of Notes as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes, unless the documents relating to the Notes are voluntarily registered in Luxembourg. Proceedings in a Luxembourg court or the presentation of documents relating to the Notes, other than the Notes themselves, to an “*autorité constituée*” may require registration of the documents, in which case the documents will be subject to registration duties depending on the nature of the documents.

There is no Luxembourg VAT payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg VAT does not apply with respect to such services.

No Luxembourg inheritance taxes are levied on the transfer of the Notes upon death of a holder of Notes in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. No Luxembourg gift tax will be levied on the transfer of the Notes by way of gift unless the gift is registered in Luxembourg.

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of the Notes and is a summary of the Issuers' understanding of current law and published practice in the United Kingdom as at the date of this Prospectus relating only to the United Kingdom withholding tax treatment of payments of interest in respect of the Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Notes. The United Kingdom tax treatment of prospective holders of the Notes depends on their individual circumstances and may be subject to change in the future. Prospective holders of the Notes who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Interest on the Notes

Payments of interest on the Notes may be made without withholding on account of United Kingdom income tax.

However, a prospective holder of the Notes may wish to note that, in certain circumstances, HM Revenue and Customs (HMRC) has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom by or through whom interest is paid to, or by whom interest is received on behalf of, an individual, whether resident in the United Kingdom or elsewhere. Interest for this purpose includes any amount to which a person holding a deeply discounted security is entitled on redemption of that security, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of Notes where such amounts are paid on or before 5 April 2013. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the holder of the Notes is resident for tax purposes.

SUBSCRIPTION AND SALE

The Dealers have pursuant to a Programme Agreement dated 30 May 2012 and as amended and/or supplemented and/or restated from time to time (the **Programme Agreement**) agreed with ESFG and ESFIL a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*” above.

Set forth below are certain selling restrictions applicable to Notes issued under the EMTN Programme. Each Dealer has represented and agreed that it will comply with these restrictions. Each further Dealer appointed under the Programme Agreement will be required to represent and agree to all applicable restrictions.

The following selling restrictions may be modified by the relevant Issuer and the relevant Dealers following a change in the relevant laws or regulations. Any such modification will be set out in the applicable Final Terms issued in respect of the issue to which it is related or in a supplement to the Prospectus

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Programme Agreement will be required to agree that, except as permitted by the Programme Agreement, it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of (A) the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as certified to the Agent by such Dealer (or, in the case of a sale of a series of Notes to or through more than one Dealer, by each of such Dealers as to Notes of such series purchased by or through it, in which case the Agent shall notify each such Dealer when all such Dealers have so certified), and (B) the settlement date of such identifiable Tranche of Notes (or such other date as the Issuer may in its sole discretion deem necessary to comply with Regulation S) within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

In addition, until 40 days after the completion of the distribution of all Notes of any Tranche certified as described above, an offer or sale of Notes of such Tranche within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the relevant Issuer and the relevant Dealer may agree as indicated in the applicable Final Terms for such issue. Each Dealer has agreed and each further Dealer appointed under the Programme Agreement will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme Agreement will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the applicable Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) if the applicable Final Terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the applicable Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or such Final Terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (and

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

United Kingdom

Each Dealer has represented and agreed that:

1. it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the **FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
2. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Issues of Notes by ESFG with a Specified Denomination of less than €50,000 (or its equivalent) or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, €100,000 (or its equivalent) to be admitted to trading on an EEA regulated market and/or offered on an exempt basis in the EEA

Unless otherwise expressly indicated in the applicable Final Terms and notwithstanding the European Economic Area selling restrictions set out above applicable to Notes, in relation to Notes issued by ESFG with a Specified Denomination of less than €50,000 (or its equivalent in another currency) or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, €100,000 (or its equivalent in another currency) to be admitted to trading on an EEA regulated market and/or offered in any EEA Member State on an exempt basis as contemplated under Article 3(2) of the Prospectus Directive:

- (a) each Dealer has represented and agreed, and each further Dealer appointed under the Programme Agreement will be required to represent and agree, that (i) it has not offered or sold, (ii) neither it nor its affiliates will offer or sell, and (iii) it will use reasonable efforts to ensure that no offer or sale is made whether through financial intermediaries or otherwise of, any such Notes to the public in any EEA Member State by means of this Prospectus, the applicable Final Terms or any other document, other than to qualified investors (as defined in the Prospectus Directive);
- (b) each Dealer has acknowledged, and each further Dealer appointed under the Programme Agreement will be required to acknowledge, that no action has been taken by ESFG or any other person that would, or is intended to permit an offer to the public of any such Notes in any country or jurisdiction at any time where any such action for that purpose is required; and
- (c) each Dealer has undertaken, and each further Dealer appointed under the Programme Agreement will be required to undertake, that (i) such Dealer and its affiliates will not, and (ii) such Dealer will, in the case of financial intermediaries, use reasonable efforts to ensure that any such financial intermediaries will not, offer or sell any such Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and

regulations and all offers and sales of any such Notes by such Dealer or its affiliates or by such financial intermediaries will be made on these terms, and provided that no such offer or sale of Notes by such Dealer or its affiliates or by any such financial intermediaries, shall require ESFG, such Dealer or such financial intermediaries to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

General

No action has been taken or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Each Dealer has agreed and each further Dealer appointed under the Programme Agreement will be required to agree that it will, to the best of its knowledge, having made all reasonable enquiries, comply with all applicable securities laws, regulations and directives in force in each jurisdiction in which it purchases, offers, sells, or delivers Notes or has in its possession or distributes this Prospectus or any other offering material or any Final Terms and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws, regulations and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of ESFG, ESFIL or any of the other Dealers shall have any responsibility therefor.

No Dealer is authorised to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Prospectus.

None of ESFG, ESFIL or any Dealer, represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the relevant Issuer, the Guarantor (if applicable) and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

1. Authorisation

The establishment of the EMTN Programme, the issue of Notes by ESFG and the giving of the guarantee in respect of Notes issued by ESFIL have been authorised by resolutions of the Board of Directors of ESFG dated 22 March 2011 and 10 May 2012. The establishment of the EMTN Programme and the issue of Notes by ESFIL have been authorised by resolutions of the Board of Directors of ESFIL dated 16 March 2011 and 9 May 2012.

2. Share capital

2.1 Immediately prior to the publication of this document, the authorised share capital of ESFG was EUR 2 billion, comprising 2 billion shares of no par value, and ESFG's issued share capital was EUR 207,075,338 represented by 207,075,338 Ordinary Shares (all of which are fully paid). Ordinary Shares issued by ESFG are governed by Luxembourg law.

2.2 The Board is authorised by ESFG's *Statuts* for a period expiring on 8 April 2014, by board resolution, to issue new Shares, in one or several transactions, up to an amount equal to the authorised share capital of ESFG, without reserving a preferential subscription right to existing shareholders, at such price (including any share issue premium) as is determined by the Board. ESFG's *Statuts*, which set out its objects and purpose, are filed with the Luxembourg Register of Commerce and Companies.

2.3 ESFG may issue Ordinary Shares in bearer or registered form at the option of the shareholders. Title to bearer shares will be evidenced by single share certificates or multiple share certificates which shareholders shall receive from ESFG. Holders of Ordinary Shares will be able, at any time to request ESFG to exchange their bearer Ordinary Shares for registered Ordinary Shares and vice-versa. For purposes of clearance through Euroclear and Clearstream, Luxembourg, Ordinary Shares issued in bearer form and registered form have separate Common Code and International Securities Identification (ISIN) numbers, but are fully fungible. See paragraph 16.2 below.

2.4 Title to bearer shares is evidenced by a bearer share certificate or a multiple bearer share certificate. The name and address of the holder of registered Ordinary Shares is entered in the share register held by ESFG and ESFG, if so specifically requested by the holder of registered Ordinary Shares, will deliver a registered share certificate or a multiple registered share certificate in the name of the holder of the registered Ordinary Shares.

2.5 There are no shares or participating units not representing capital in ESFG.

2.6 ESFG has the following bonds and warrants outstanding. On 15 November 2005, ESFG issued the EUR 500 million Fixed Rate Step-up Notes due 2025 issued with 10,000 Warrants. Interest is payable annually at the rate of 3.55 per cent. per annum until 15 November 2010 and at the rate of 5.05 per cent. thereafter. Each Warrant entitles the holder to subscribe EUR 50,000 to acquire fully paid up Shares at an initial exercise price of EUR 24.50 per Share (but subject to adjustment) at any time on or after 26 December 2005 up to the close of business on 8 November 2025. From 15 November 2005, the Notes and Warrants could be detached or traded separately. Unless previously redeemed or repurchased, and in each case cancelled, the Notes will be redeemed at their principal amount on 15 November 2025. On 5 December 2011, ESFG invited holders of its €500,000,000 Fixed Rate Step-up Notes due 2025 issued with 10,000 Warrants that were outstanding ("Existing Notes and Warrants") to (i) offer to exchange any or all of their Existing Notes and Warrants that are outstanding for 9.75 per cent. convertible bonds due 2025 (ISIN:

XS0717615099), subject to valid offers to exchange being received in respect of Existing Notes representing in aggregate a minimum of €50,000,000 of the aggregate principal amount of the Existing Notes together with the related Warrants (the “Exchange Offer”) and (ii) offer to tender their Existing Notes and Warrants that were outstanding for purchase by ESFG for cash subject to a maximum cash purchase amount (inclusive of accrued interest in respect of the Existing Notes) of €100,000,000 (the “Tender Offer”). Following the cancellation of the Existing Notes and Warrants exchanged or purchased by ESFG pursuant to the Exchange Offer and the Tender Offer, the aggregate principal amount of ESFG’s Fixed Rate Step-up Notes due 2025 outstanding and the number of Warrants outstanding was €181,350,000 and 3,627, respectively. On 19 December 2011 ESFG issued €130,416,000 9.75 per cent. Convertible Bonds due 19 December 2025.

2.7 The issued capital of ESFG on 1 January 2005 was EUR 479,085,550, on 22 May 2006 the issued capital of ESFG was increased to EUR 578,549,160, on 2 December 2008 it was increased to EUR 778,549,160 and on 14 October 2011 it was increased to EUR 778,855,180. On 28 October 2011 the nominal value of the Shares was cancelled and the accounting value of each share was reduced to one euro from 10 euros reducing the issued share capital of ESFG to EUR 77,885,518 from EUR 778,855,180. On 19 December 2011, the issued capital of ESFG was increased to EUR 105,034,522. On 26 April 2012 the issued share capital of ESFG was increased to EUR 207,075,338.

2.8 The Ordinary Shares are listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange. The Ordinary Shares are also admitted to listing and trading on NYSE Euronext Lisbon and are admitted to the official list maintained by the UK Listing Authority and to trading on the London Stock Exchange’s regulated market.

3. Articles of Association

The following information is a summary of ESFG’s Articles of Association (*Statuts*) and of Luxembourg law applicable to the Shares. Prospective investors should read in full the *Statuts*, which are filed with the Luxembourg Register of Commerce and Companies, and not just rely on the summary provided below.

3.1 *Objects and corporate purpose*

3.1.1 The corporate objects of ESFG are set out in Article 3 of its *Statuts* and are as follows: (i) the acquisition, holding and disposal of participations directly or indirectly, in any form whatsoever, in Luxembourg companies and/or foreign companies or other entities, (ii) the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes or other securities or any kind of instrument and contracts thereon or relative thereto, (iii) the direct and/or indirect financing of Luxembourg companies and/or foreign companies or other entities in which ESFG holds a participation or which are members of its group, and (iv) the ownership, administration, development and management of ESFG’s portfolio holdings.

3.1.2 The *Statuts* also provide that ESFG may (i) grant any direct and/or indirect financial assistance whatsoever to the companies and/or enterprises in which it holds a participation or which are members of its group, in particular by granting loans, facilities or guarantees in any form and for any term whatsoever and provide them any advice and assistance in any form whatsoever, (ii) carry out any transactions, whether commercial or financial, which are directly or indirectly connected with its objects at the exclusion of any banking activity, and (iii) in general, carry out any operation which ESFG may deem useful or necessary in the accomplishment and the development of its corporate purpose.

3.2 ***Members of administrative, managerial and supervisory bodies***

3.2.1 *Board of Directors*

ESFG shall be managed by a Board composed of at least three members. The Board shall be elected by resolution of the shareholders at a general meeting for a maximum period of six years and may be re-elected. Directors shall not be required to hold any shares in the capital of ESFG by way of qualification.

In the event of one or more vacancies in the office of Director, the remaining Directors may elect a director to fill such a vacancy, in which case the election shall be ratified by the shareholders at the next general meeting.

The Board is vested with the powers to perform all acts necessary or desirable to accomplish ESFG's objects. The Board may delegate the daily management of ESFG and representation of ESFG within such daily management to one or more directors, officers, executives, employees or other agents who may, but need not, be shareholders, delegate special powers or proxies, or entrust determined permanent or temporary functions to persons or agents chosen by it. According to the *Status*, delegation of daily management to a member of the Board is subject to previous authorisation by the shareholders at a general meeting.

In July 2005, the Board established an Audit Committee comprising three independent Directors. On 3 March 2007, the Board established, and approved the rules of, the Executive Committee. The members of the Executive Committee comprise three Directors. On 22 September 2008, the Board also established a Stock Options Committee comprising three Directors.

ESFG will be bound by: (i) the joint signatures of any two directors, or (ii) the sole signature of the person to whom the daily management of ESFG has been delegated, but within the limits of such daily management, or (iii) the signatures of any persons to whom a special signatory power has been delegated by the Board, but only within the limits of such power.

The Board shall choose (and has so chosen) from among its members a chairman, who shall call meetings of the Board. The Board may appoint (and has so appointed) a secretary, who need not be a Director. A meeting of the Board must be convened if any two Directors so require. The quorum for a meeting of the Board is a majority of Directors present or represented and Board resolutions are approved by a majority of the Directors present or represented.

3.2.2 *Auditors*

The supervision of the operations of ESFG is entrusted to one or more auditors (*Réviseurs d'Entreprises Agréés*), who need not be shareholders and shall be elected by a resolution of the shareholders. The auditors shall remain in office for a maximum period of six years and are eligible for re-election.

3.3 ***Share rights***

3.3.1 *Authorised and issued share capital*

The Board is authorised to issue shares in one or several tranches within the limits of the authorised share capital. These shares shall be issued on such terms and conditions that the Board shall approve and at such price including such issue premium as it may decide.

The Board is authorised to cancel or limit the preferential subscription right in case of an increase of capital within the limits of the authorised share capital. Such authorisations are valid up to and including 8 April 2014 and may be renewed for further periods of up to five years.

3.3.2 *Repurchase and conversion of shares*

ESFG may repurchase its own shares subject to the conditions provided for by Article 49–2 of, and in accordance with, the Luxembourg Companies Act. Any repurchase of shares is conditional upon (i) the prior authorisation given by the shareholders (and such authorisation may not exceed five years), (ii) such repurchase only relating to fully paid up shares, and (iii) such repurchase not resulting in the value of ESFG’s net assets falling below an amount lower than an amount corresponding to ESFG’s issued and outstanding share capital increased by the legal reserve and any statutory reserves ESFG is not permitted to distribute.

The shares are not subject to conversion provisions.

3.3.3 *Voting rights*

Subject to any rights or restrictions attached to any shares, every member present in person or by proxy at any general meeting shall have one vote for every share of which he is the holder.

3.3.4 *Distributions*

Pursuant to Luxembourg law, dividends are payable out of ESFG’s statutory reported profits and free reserves. Since 1985 (with the exception of the financial years ended 31 December 2002 and 31 December 2011), the Board has proposed dividends each year, ESFG’s shareholders have approved the proposed dividends at the respective annual general meeting and ESFG has paid dividends to eligible shareholders. The *Statuts* do not contain any fixed rate of dividend (or method for its calculation) or any fixed date on which any dividend entitlement arises. Duly declared unpaid dividends forfeit in favour of ESFG after a period of five years.

There are currently no Luxembourg laws, regulations or foreign exchange control restrictions on the export or import of capital or on the remittance of dividends to non-resident holders of ESFG’s securities.

In the event of a distribution by ESFG to its shareholders, each share entitles its holder to the same proportion in such distribution. The same rule applies in relation to any distribution of net liquidation proceeds by ESFG in the event of liquidation of ESFG.

3.3.5 *Pre-emption rights*

New shares to be subscribed for by contribution in cash will be offered by preference to existing shareholders of ESFG in proportion to that part of the share capital which those existing shareholders hold. The Board shall determine the period within which the preferred subscription right shall be exercised. This period may not be less than 30 days.

Notwithstanding the above, the general meeting of shareholders of ESFG, voting in compliance with the quorum and majority rules applicable to any amendment of the Articles, may limit or withdraw the preferential subscription right of shareholders.

In addition, the Board is authorised to issue shares within the limits of the authorised capital without the shareholders having any preferential subscription rights.

3.4 *Variation of rights*

A change of the rights of holders of shares requires the approval given by the shareholders at an extraordinary general meeting of shareholders in accordance with the requirement described in paragraph 3.5.2 below. Additional payments on issued and outstanding shares may only be imposed on shareholders with the unanimous consent of all the shareholders.

3.5 *Shareholders' meetings*

3.5.1 *Annual general meeting*

The date and place of the annual general meeting of shareholders is announced at least 30 days before the date of the meeting. According to the *Statuts*, the annual general meeting is held at 12:00 p.m. on the last Friday of April of each year.

3.5.2 *Other general meetings*

A general meeting of shareholders may be convened by the Board or the statutory auditors, or if holders of at least one tenth of the share capital of ESFG so request. A quorum shall constitute holders of fifty per cent. of ESFG's share capital present or by proxy on a first meeting. In a second, reconvened meeting, there is no quorum requirement.

3.5.3 *Convening of general meetings*

Under Luxembourg law, shareholders of ESFG will meet upon issuance of a convening notice.

Pursuant to a recent Luxembourg law of 24 May 2011 on certain rights of shareholders at general meetings of listed companies (the "Luxembourg Shareholders' Rights Law"), the convening notice shall be made in accordance with the following rules.

The convening notice shall be published in the *Mémorial C, Recueil des Sociétés et Associations*, in a Luxembourg newspaper and in such media as may reasonably be relied upon for the effective dissemination of information to the public throughout the European Economic Area in a manner ensuring fast access to it and on a non-discriminatory basis.

If all the shares are in registered form ESFG may instead decide to communicate the convening notice to shareholders by registered mail, unless the registered shareholders have individually accepted expressly and in writing to receive their convening notice by another means of communication.

The convening notice shall also be made available to the registered shareholders, the members of the board of directors and the independent auditors (*réviseurs d'entreprises agréés*). Such communication shall be made by mail, unless the addressees have individually accepted expressly and in writing to receive the convening notice by another means of communication, without any requirement to evidence the fulfilment of this formality.

The company may not charge any specific cost for issuing convening notices. The convening notice must specify the following information:

- (a) the time and place of the meeting as well as the agenda and the nature of the business to be transacted at the relevant general meeting of shareholders. The agenda for an extraordinary general meeting shall also, where appropriate, describe any proposed

changes to the articles of association and, if applicable, set out the text of those changes affecting the object or form of the company;

- (b) a clear and precise description of the procedures shareholders must comply with in order to participate and to cast their vote in the general meeting. This includes information concerning:
 - (i) the rights available to shareholders to put items on the agenda of the general meeting and to table draft resolutions to the extent that those rights can be exercised after the issuing of the convocation, the right to ask questions and the deadlines within which these rights may be exercised; the convening notice may confine itself to stating only the deadlines by which these rights may be exercised, provided it contains a reference to more detailed information concerning those rights being made available on the internet site of the company;
 - (ii) the procedure for voting by proxy, notably the forms to be used to vote by proxy and the means by which the company is prepared to accept electronic notifications of the appointment of proxy holders; and
 - (iii) where applicable, the procedures for casting votes by correspondence or by electronic means;
- (c) where applicable, state the record date, the methods to be used by shareholders in order to be recorded and explain that only those who are shareholders on that record date shall have the right to participate and vote in the general meeting;
- (d) indicate the email and mailing addresses where the full, unabridged text of the documents to be submitted to the general meeting of shareholders and the draft resolutions proposed to be adopted by the meeting may be obtained as well as how to obtain copies thereof; and
- (e) indicate the address of the internet site on which the information to be made available to the shareholders will be made available.

If all the shareholders are present or represented at a general meeting of shareholders and if they state that they have been informed of the agenda of the meeting, the meeting may be held without prior notice.

On 27 April 2012, the annual general meeting of ESFG approved the audited consolidated financial statements of ESFG for the year ended 31 December 2011 and the audited non-consolidated financial statements of ESFG for the year ended 31 December 2011.

3.5.4 *Procedure; Voting rights*

A shareholder may appoint (in writing or by cable or telegram or telex or telefax) as his proxy another person, who need not be a shareholder, to represent him at a shareholders' meeting. In addition, the Articles of Association allow the shareholders to cast their vote by ballot papers (*formulaires*) expressed in the English language.

Resolutions require the affirmative vote of a majority of those shareholders present or represented by proxy and entitled to vote at the meeting except that in the case of an extraordinary general meeting the purpose of which is to change the *Statuts*, such resolutions

will require the affirmative vote of two thirds of those shareholders present or represented by proxy and entitled to vote at the meeting.

The Board may determine all other conditions that must be fulfilled in order to take part in a shareholders' meeting to the extent that they are in conformity with the Luxembourg Shareholders' Rights Law.

3.6 *Restrictions on change of control*

The Luxembourg Companies Act does not contain any provision that would have an effect of delaying, deferring or preventing a change in control of ESFG. In the case of a hostile takeover bid for ESFG, the *Statuts* would permit the Directors to issue new Shares within the limits of the authorised share capital permitting existing shareholders or new investors of the Directors' choice to increase their shareholding (and voting interest) in ESFG or to become new shareholders of ESFG. This action could constitute a possible defence to a hostile takeover bid.

In the case of a takeover bid which leads the offeror to own at least 95 per cent. of the Shares and of the voting rights in ESFG, the Luxembourg Takeover Act includes an option in favour of the offeror for a squeeze out which allows the offeror to purchase all the Shares held by the remaining shareholders of ESFG in exchange for the same (or cash equivalent) price as the offer. Such squeeze out right is required to be exercised within three months from the end of the acceptance period of the bid.

In the case of a takeover bid which leads the offeror to own at least 90 per cent. of the voting rights in ESFG, the Luxembourg Takeover Act includes a sell out option in favour of the remaining shareholders of ESFG which enables them to have their shares purchased by the offeror at the same (or cash equivalent) price as the public offer. Such sell out right is required to be exercised within three months from the end of the acceptance period of the bid.

In the case of a natural person who, as a result of acquisitions of Shares (made alone or in concert with other persons), owns 33.33 per cent. of the voting rights in ESFG, the Luxembourg Takeover Act provides that such person is required to make a bid and offer to purchase the Shares held by the other shareholders in exchange for the highest price paid by the offeror (or by the persons acting in concert with the offeror) for Shares during the 12 month period preceding the bid, subject to regulatory supervision by the CSSF.

3.7 *Disclosure of share ownership*

The Luxembourg law of 11 January 2008 concerning the transparency obligations of issuers of securities requires the disclosure of ownership threshold and any change to ownership threshold of 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 33¹/₃ per cent., 50 per cent. and 66²/₃ per cent. of the voting rights. Disclosure is made in a notification to ESFG and to the CSSF.

3.8 *Disclosure of regulated information*

The Company publishes its regulated information in accordance with the Luxembourg law of 11 January 2008 concerning the transparency obligations of issuers of securities.

3.9 *Changes in capital*

In addition to an increase in the share capital of ESFG by the Board within the limits of the authorised share capital referred to in paragraph 3.3.1 above, the share capital of ESFG may be increased or reduced from time to time by an amendment to the *Statuts* of ESFG at an

extraordinary general meeting of shareholders. The *Statuts* provide that the quorum and majority requirements for passing a resolution to that effect are those required by the Luxembourg Companies Act.

4. Directors and members of Senior Management

4.1 Functions

Details of the Directors and members of Senior Management and their functions are set out under “*Directors, Senior Management and Employees*”.

4.2 Current and past directorships

The Directors’ and members of Senior Management are, or have been, members of the administrative, management or supervisory bodies of the following companies and partnerships (other than the ESFG Group) at any time in the previous five years:

Name	Position	Current directorships and partnerships	Past Directorships and partnerships (held in last five years)
Ricardo Espírito Santo Silva Salgado	Director	E.S. Holding Administração e Participações S.A. Casa dos Pórticos – Sociedade de Administração de Bens Banco Bradesco, S.A. Espírito Santo International S.A. Espírito Santo Resources Limited Conseil de Cooperation Economique (Europe) NYSE Euronext BESPAR – Sociedade Gestora de Participações Sociais, S.A. ES TECH VENTURES, SGPS, S.A. Espírito Santo Financial (Portugal) – Sociedade Gestora de Participações Sociais, S.A. Espírito Santo Saúde – SGPS, S.A. Espírito Santo Ventures – Sociedade de Capital de Risco, S.A. PARTRAN – Sociedade Gestora de Participações Sociais, S.A.	Club Mediterranée, S.A. E.S. Control Holding, S.A. Espírito Santo Control, S.A. Euronext NV SGMR, S.A. BES Overseas Limited Espírito Santo Overseas Limited Espírito Santo Financial Services Inc. Espírito Santo – Empresa de Prestação de Serviços – ACE
José Manuel Pinheiro Espírito Santo Silva	Director	Espírito Santo International S.A. Espírito Santo Services, S.A. Casa da Saudade – Administração de Bens Moveis e Imoveis, S.A. Espírito Santo Resources Limited Espírito Santo Control, S.A. Europ Assistance – Companhia Portuguesa Seguros Assistência, S.A. Ribeira do Marchante – Administração de Bens Móveis e Imóveis, S.A.	E.S. Control Holding, S.A. E.S. Holding – Administração e Participações S.A. Espírito Santo Agriculture and Development Limited Espírito Santo BVI Participation Limited Espírito Santo Control (BVI), S.A. Espírito Santo Enterprises, S.A. Espírito Santo Industrial (BVI), S.A. Espírito Santo International (BVI), S.A. Espírito Santo International Panama, S.A. Espírito Santo Property (BVI), S.A. Gespetro, SGPS, S.A. Sociedade Imobiliária e Turística da Quinta do Perú SGPS S.A. Parfil – Sociedade de Participações Financeiras, Lda
António Luís Roquette Ricciardi	Director	Espírito Santo Services, S.A. Espírito Santo Control, S.A. Espírito Santo International S.A. Espírito Santo Resources Limited Espírito Santo Resources (Portugal), S.A. Casa do Guincho – Sociedade de	E.S. Control Holding, S.A. Espírito Santo Tourism (Portugal) – Consultoria de Gestão Empresarial, S.A. Espírito Santo Tourism (Portugal), S.A. Espírito Santo International S.A.

Name	Position	Current directorships and partnerships	Past Directorships and partnerships (held in last five years)
		Administração de Bens, S.A. Espírito Santo Viagens– SGPS, S.A. Gestres – Gestao Estrategica Espírito Santo, S.A BESPAR SGPS, S.A.	
Mário Mosqueira do Amaral	Director	Banco Espírito Santo North American Capital Corporation Espírito Santo Services, S.A. Espírito Santo Control, S.A. Espírito Santo International S.A. Banque Marocaine du Commerce Extérieur Espírito Santo Resources Limited Amaral & Pinto – Empreendimentos Imobiliários	Milagres Investimentos Imobiliários, S.A.
Manuel Fernando de Moniz Espírito Santo Silva	Director	Academia de Música de Santa Cecília Espírito Santo Resources Limited Espírito Santo Tourism (Europe), S.A. Euroamerican Finance Corporation, Inc. Herdade da Comporta–Actividades Agro Silvícolas e Turísticas, S.A. Espírito Santo Control, S.A. Espírito Santo Industrial, S.A. Espírito Santo International S.A. Espírito Santo Services S.A. Rio Forte Investements S.A. Rio Forte (Portugal) S.A. Santogal SGPS, S.A. Saptec, S.A. Sociedade de Investimentos Imobiliários SODIM, S.A.	E.S. Control Holding, S.A. Espírito Santo Resources (Portugal), S.A. Espírito Santo Tourism (Portugal) Consultoria de Gestão Empresarial, S.A. PT Multimedia Serviços de Telecomunicações e Multimédia, SGPS, S.A. ZON Multimedia Telecomunicações e Multimédia, SGPS, S.A.
Jackson Behr Gilbert	Director	–	–
Patrick Monteiro de Barros	Director	Argus Resources (UK) Ltd. Allhaven Ltd Enupor Espírito Santo International S.A. Fundação Monteiro de Barros, S.A Petroplus Holdings	Espírito Santo Resources Limited. Portugal Telecom, S.A. Protea Holdings
Robert Studer	Director	–	BASF AG Renault, S.A. Schindler Holding AG
Philippe Guiral	Director	Banco delle Tre Venezie Pragma Capital East Capital Financial Fund Mandel Partners	–
Manuel António Ribeiro Serzedelo de Almeida	Director	Estrela SGPS Egeo–Ipodec, S.A.	Altitude Software
José Maria Espírito Santo Silva Ricciardi	Director	EDP – Energias de Portugal, S.A. Sporting Clube de Portugal – Futebol, S.A.D	Casa do Guincho – Sociedade de Administração de Bens, S.A. COPORGEST – Companhia Portuguesa de Gestão e Desenvolvimento Imobiliário, S.A.
Pedro Guilherme Beauvillain de Brito e Cunha	Director	BES Seguros Europ Assistance Portugal Europ Assistance Brasil BES Vida	–

Name	Position	Current directorships and partnerships	Past Directorships and partnerships (held in last five years)
Carlos Augusto Machado de Almeida Freitas	Director	–	António de Almeida & Filhos – Têxteis, S.A. Casa de Passarinhos – Gestão e Investimento, S.A. Prédicónegos – Imobiliária de Moreira de Cónegos, Lda.
Anibal da Costa Reis Oliveira	Director	Espírito Santo Financial (Portugal), SGPS, S.A. Espírito Santo International S.A. ACRO SGPS, S.A. Diliva – Sociedade de Investimentos Imobiliários, S.A. Oliren SGPS Lda Olinveste SGPS Lda Olinerg SGPS, S.A.	Texarte Têxteis, S.A. Saramagos – Sociedade Produtora de Energia S.A.
Othman Benjelloun	Director	Banque Marocaine du Commerce Extérieur (BMCE Bank) Finance.Com Meditel RMA Watanya Moroccan Bankers' Association GPBM	–
José Pedro Torres Garcia Caldeira da Silva	Director	Adepa Asset Management S.A. ES Bank (Panama) Limited E.S. Venture Limited. Association of Foreign Banks in Switzerland	Novagest Assets Management Ltd.
Fernando Pedro Braga Pereira Coutinho	Director	–	–
Yves Alain Marie Morvan	Director	–	–
José Carlos Cardoso Castella	Director	BEMS, SGPS, SA Control Development Limited E.S. International Overseas Limited E.S. Resources Overseas Limited E.S. International Panama, S.A. E.S. Private Equity Limited Enterprises Management Services Ltd ESAT S.A. ESBN Inc. Escopar SGPS S.A. ESGER – Empresa de Serviços de Consultoria, S.A. ESPART – Espírito Santo Participações Financieras, SGPS, S.A. Espírito Santo Agriculture and Development Limited Espírito Santo BVI Participation Ltd. Espírito Santo Control, S.A. Espírito Santo Health & Spa, S.A. Espírito Santo Industrial (BVI) S.A. Espírito Santo Industrial (Portugal) SPGS S.A. Espírito Santo Industrial S.A. Espírito Santo International (BVI) S.A. Espírito Santo International Limited Espírito Santo Irmãos, SGPS, S.A. Espírito Santo Property (BVI), S.A. Espírito Santo Property Holding (Portugal), S.A. Espírito Santo Property, S.A. Espírito Santo Resources (Portugal) S.A. Espírito Santo Resources Limited Espírito Santo Resources, S.A. Espírito Santo Services, S.A. Espírito Santo Services, S.A. – Succ. Lausanne	

Name	Position	Current directorships and partnerships	Past Directorships and partnerships (held in last five years)
		Espírito Santo Tourism (Europe), S.A. Espírito Santo Tourism Limited Euroamerican Finance Corporation, Inc. Euroamerican Finance, S.A. GES Finance Limited Gestres – Gestão Estrategica Espírito Santo S.A. Quinta dos Cónegos – Sociedade Imobiliária Rio Forte Investments, S.A. S.D. Imoveis S.A. Suliglor – Imobiliária do Sul, S.A. USHUAIA – Gestao e Trading Internacional Limitada. Rio Forte Investments, S.A.	
Bernard Basecqz	Director	Benetton International S.A., Luxembourg Benetton Real Estate International S.A., Luxembourg Benetton Holding International N.V.S.A., Luxembourg QAT Investments S.A. Luxembourg QAT II Investments S.A. Luxembourg O'Neill Brand Sarl, Luxembourg WE Brand Sarl, Luxembourg Waalwear Brands Sarl, Luxembourg Union Bancaire Privée (Luxembourg) S.A. Luxembourg Investment Partners S.A.	
Gherardo Laffineur Petracchini	Director	Conseiller du Commerce Extérieur de la France Academician of the Accademia Angelica Costantiniana of Rome, Italy	CFCII (Chambre Française de Commerce et d'Industrie en Italie) Locat Rent SpA
Manuel Guerrero Pemán	Director	Inveravante Grupo CETSSA Seguridad, S.A. Parque Temático de Madrid (Parque Warner) Grupo Prensa Joly Tradisa Grupo Troll University Francisco de Vitoria Business School ESIC	–
José Manuel Ruivo Da Pena	Director	-	-
Luis António Burnay Pinto de Carvalho Daun e Lorena	Director	Campeque - Compra e Venda de Propriedades, LDA	Espírito Santo Hóteis SGPS SA Hotéis Tivoli SA Hotelagos SA Sociedade de Investimentos Hoteleiros Almansor, SA

4.3 The Directors' and members of Senior Management's current business addresses are as follows:

Name	Current business address
Directors	
Ricardo Espírito Santo Silva Salgado	Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal
José Manuel Pinheiro Espírito Santo Silva	Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal
António Luís Roquette Ricciardi	Rua de São Bernardo, 62, 1240-092 Lisbon, Portugal
Mário Mosqueira do Amaral	Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal
Manuel Fernando de Moniz Galvão Espírito Santo Silva	Rua de São Bernardo, 62, 1249-092 Lisbon, Portugal
Jackson Behr Gilbert	1395 Brickell Avenue, Miami, Florida 33131, USA
Patrick Monteiro de Barros	19 Berkeley Street, London W1J 8ED, United Kingdom
Robert Studer	21/25 Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg
Philippe Guiral	45 avenue Georges Mandel, 75116 Paris, France
Manuel António Ribeiro Serzedelo de Almeida	Avenida Sidónio Pais, 14,1 1050-214 Lisbon, Portugal
José Maria Espírito Santo Silva Ricciardi	Rua Alexandre Herculano, No 38, 1269-161 Lisbon, Portugal

Name	Current business address
Directors	
Pedro Guilherme Beauvillain de Brito e Cunha	Avenida da Liberdade, 242, 1250-149 Lisbon, Portugal
Carlos Augusto Machado de Almeida Freitas	21/25 Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg
Aníbal da Costa Reis Oliveira	Avenida Riopele 888, 4770-405, Pousada de Saramagos, V.N. Famalicão, Portugal
Othman Benjelloun	140 avenue Hassan II, Casablanca 2000, Morocco
José Pedro Torres Garcia Caldeira da Silva	70a Avenue Général Guisan, CH-1009, Pully, Switzerland
Fernando Pedro Braga Pereira Coutinho	Avenida da Liberdade 195, 1250-142, Lisbon, Portugal
Yves Alain Marie Morvan	45 avenue Georges Mandel, 75116 Paris, France
José Carlos Cardoso Castella	Rua de São Bernardo, 62, 1200-826 Lisbon, Portugal
Bernard Basecqz	1, Rue Plaetis, L-2338, Luxembourg, Grand Duchy of Luxembourg
Manuel Guerrero Pemán	María de Molina 5, 26006, Madrid, Spain
Gherardo Laffineur Petracchini	10 Paternoster Square, London EC4M 7AL, United Kingdom
José Manuel Ruivo Da Pena	Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal
Luis António Burnay Pinto de Carvalho Daun e Lorena	Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal
Senior Management	
Erich Dähler	Général Guisan 70A, CH-1009, Pully, Switzerland
Jean-Luc Schneider	Avenue de Montchoisi, 35, CH-1001 Lausanne, Switzerland
Filipe Worsdell	10 Paternoster Square, London EC4M 7AL, United Kingdom
Teresa de Souza	10 Paternoster Square, London EC4M 7AL, United Kingdom
Jorge Penedo	Rua de São Bernardo, 62, 1200-826 Lisbon, Portugal

4.4 Save as set out in paragraph 4.2 above, none of the Directors or members of Senior Management:

- (a) has been a member of the administrative, management or supervisory body of any company or partner of any partnership at any time in the previous five years;
- (b) has had any convictions in relation to fraudulent offences at any time in the previous five years;
- (c) has had any bankruptcies, individual voluntary arrangements or similar proceedings at any time in the previous five years;
- (d) has been a member of the administrative, management or supervisory body of any company or partner of any partnership during a time in which such company or partnership was the subject of any bankruptcy, receivership or liquidation or similar collective proceedings at any time in the previous five years;
- (e) has been the subject of any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies) at any time in the previous five years; or
- (f) has been disqualified by a court from acting as a member of the administrative, management or supervisory body of any company or from acting in the management or conduct of the affairs of any company at any time in the previous five years.

5. Directors' and other interests in ESFG

5.1 The interests in the share capital of ESFG of the Directors and members of Senior Management as at 30 April 2012, the latest practicable date prior to the date of this document, are and are expected to be on completion of the Offer, as follows:

<u>Name</u>	<u>Number of Shares in which the Director or member of Senior Management has a direct or indirect interest</u>
Director	
Jackson Behr Gilbert	101
José Carlos Cardoso Castella	649
Fernando Pedro Braga Pereira Coutinho.....	2,520
José Manuel Pinheiro Espírito Santo Silva.....	30,595

5.2 There are no restrictions agreed by the Directors on the disposal within a certain time period of their holdings in ESFG's securities.

5.3 As at 31 December 2011, Directors and members of Senior Management have been granted rights to acquire a total of 2,650,000 Shares under a fixed share option plan adopted by the Board in April 2008 under which ESFG may grant options to executives, employees or consultants of ESFG or its subsidiaries to acquire up to 3,000,000 Shares. The exercise price of each option is EUR 13.20 (the market price of the Shares on the date of grant) and an option has a maximum term of 10 years. Options are granted at the discretion of the Board and have a vesting period of one year. Options when exercised are to be settled in cash.

5.4 On 21 May 2012, in so far as is known to ESFG, the name of each person who, directly or indirectly, has an interest in, or voting rights with respect to five per cent. or more of ESFG's issued share capital is as follows:

<u>Name</u>	<u>Number of Shares</u>	<u>Percentage of share capital</u>
Espírito Santo International S.A.	78,428,663	37.87
Espírito Santo Irmãos SGPS, S.A.	10,513,911	5.08

5.5 Save as set out in paragraph 5.4 above, ESFG is not aware of any person who is interested (within the meaning of the Luxembourg law of 4 December 1992), directly or indirectly, in five per cent. or more of ESFG's issued share capital. Affiliates of ESFG involved in banking, asset management, investment and/or funds businesses acting as an investor for their own accounts may hold Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such securities, any other securities of ESFG or other related investments.

5.6 Save as set out in paragraph 5.4 above, ESFG is not aware of any person who exercises, or could exercise, directly or indirectly, jointly or severally, control over ESFG.

6. Information on holdings

6.1 ESFG is a financial holding company holding and administering participating interests in other companies. The following table shows the principal subsidiaries of ESFG, being those in which ESFG holds a proportion of the capital likely to have a significant effect on the assessment of ESFG's own assets and liabilities, as at 21 May 2012, being the latest practicable date prior to the date of this document:

<u>Name and country of incorporation</u>	<u>Registered office</u>	<u>Proportion of voting interest (%)</u>	<u>Proportion of economic interest (%)</u>	<u>Field of activity</u>
Banco Espírito Santo, S.A. Portugal	Avenida da Liberdade, 195 1250-142 Lisbon, Portugal	37.0	27.7	Banking
Companhia de Seguros Tranquilidade, S.A. Portugal	Avenida da Liberdade, 242 1250-149 Lisbon, Portugal	100	100	Insurance

<u>Name and country of incorporation</u>	<u>Registered office</u>	<u>Proportion of voting interest (%)</u>	<u>Proportion of economic interest (%)</u>	<u>Field of activity</u>
Espírito Santo Saúde SGPS, S.A. Portugal	Rua Carlos Alberto da Mota Pinto, 17, 1070-313 Lisbon, Portugal	42.9	32.1	Health Services
Banco Electrónico de Serviço Total, S.A. Portugal	Praça Marquês de Pombal 3, 3º 1250-161 Lisbon, Portugal	75.0	27.3	Banking
Banque Privée Espírito Santo, S.A. Switzerland	70A Avenue Général Guisan, CH-1009 Pully, Switzerland	100	100	Asset Management
Banque Espírito Santo et de la Venétié, S.A. France	45 Avenue Georges Mandel 75116 Paris, France	87.5	56.6	Banking
ES Bankers (Dubai) Limited Dubai	Gate Village Building 1, 1st Floor, Unit 7, Dubai International Financial Centre, Dubai	95	95	Banking
ES Bank (Panama), S.A. Panama	Edificio World Trade Center Piso 19, Oficina 1902, Calle 53, Marbella, Apartado No. 0834- 0847 Panama	100	100	Banking

6.2 The name of, and proportion of share capital held by ESFG in all of ESFG's consolidated subsidiaries is set out in Note 1 to the audited consolidated financial statements of ESFG for the years ended 31 December, 2011 and 2010, which are incorporated by reference in this document in "*Incorporation by Reference*".

7. Material contracts

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the ESFG Group within the two years immediately preceding the date of this document and which contain any provision under which any member of the ESFG Group has any obligation or entitlement which is material to the ESFG Group as at the date of this document:

7.1 *Placing Agreement*

The Placing Agreement dated 23 April 2012 entered into between ESFG, Banco Espírito Santo de Investimento, S.A., Sucursal en España, Nomura International plc and UBS Limited relating to the issue and allotment of the New Shares.

7.2 *Dealer Manager Agreements*

The Dealer Manager Agreement dated 31 October 2011 between ESFG, Banco Espírito Santo de Investimento, S.A. and Nomura International plc with respect to the invitation by ESFG on 31 October 2011 to the holders of (a) the EUR 400 million Series A Non-cumulative Guaranteed Step-Up Preferred Securities issued by ESFG's wholly-owned subsidiary ESFG International Limited and (b) ESFG's EUR 400 million 6.875 per cent. Subordinated Notes due 2019, to exchange up to EUR 400 million of such securities for new Shares, and which completed on 21 November 2011 and the Dealer Manager Agreement dated 5 December 2011 between ESFG, BESI and Nomura International plc with respect to the invitation to holders of ESFG's €500,000,000 Fixed Rate Step-up Notes due 2025 issued with 10,000 Warrants that are outstanding for exchange in consideration for the issue of €130,416,000 9.75 per cent. Convertible Bonds due 2025 and the invitation to holders of ESFG's €500,000,000 Fixed Rate Step-up Notes due 2025 issued with 10,000 Warrants that are outstanding to offer such

notes and warrants for sale for purchase by ESFG for cash.

7.3 **ESFG Guarantees**

- (a) The Subordinated Guarantee dated 6 June 2007 of ESFG in respect of EUR 400,000,000 Series A Non-Cumulative Guaranteed Step-Up Preferred Securities issued by ESFG International Limited (of which EUR 74,250,000 remain outstanding).
- (b) The Guarantee of notes and commercial paper issued by ESFIL under the ESFG and ESFIL EUR 2,000,000,000 Euro Medium Term Note Programme and the ESFIL and ESFG EUR 1,000,000,000 Euro-Commercial Paper Programme, respectively.

7.4 **Outsourcing**

On 27 January 2006, BES and PT Prime, Soluções Empresariais de Telecomunicações e Sistemas S.A., executed a services agreement for the restructuring and outsourcing of the communications network of the BES Group. The agreement became effective on 1 May 2006 for an initial period of five years and six months, and thereafter is automatically renewed for one-year periods, except if terminated by any of the parties at least six months prior to the end of any renewal period.

In January 2006, BES entered into an outsourcing agreement with IBM for the management of the BES Group's mainframe infrastructure systems for a period of 10 years (2006–2016), encompassing equipment, base software and operation services. In June 2008, this agreement was extended to include the BES Group's mid-range infrastructure systems, encompassing a similar scope of services. The resulting amended contract will run from 2008 to 2016.

7.5 **Bancassurance**

On 20 February 2006, ESFG, BESPARG, BES, Tranquilidade, Crédito Agricole and Predica S.A. (Predica), effectuated a general reorganisation of their respective insurance activities in Portugal. As a result, on 27 June 2006, BES acquired 50 per cent. of Tranquilidade Vida (now BES Vida), a Portuguese insurance company, and Crédito Agricole acquired the remaining 50 per cent., as well as management control of BES Vida. Crédito Agricole also acquired 50 per cent. of the share capital of, and management control of, Espírito Santo Seguros (now BES Seguros), a Portuguese insurance company focusing on non-life insurance, in which BES acquired 25 per cent. of the share capital and Tranquilidade acquired the remaining 25 per cent. As such, BES does not have management control of either BES Vida or BES Seguros.

BES Vida and BES Seguros sell insurance products through BES' branch network, which BES calls "*bancassurance*", and BES uses the agents of Tranquilidade to sell BES' banking products, including mortgage loans, consumer loans, investment funds, credit cards and service accounts. BES calls this joint selling relationship "*assurfinance*". Significant aspects of these agreements and the relationship among BES and its counterparties are set forth below:

- (a) the management of BES Vida and BES Seguros is undertaken by a majority of directors designated by Crédito Agricole, and management control is held by Crédito Agricole;
- (b) under the *bancassurance* relationship, BES is subject to an exclusivity obligation (mitigated in certain circumstances) mirrored by a non-compete obligation from

Crédit Agricole in the Portuguese market. The breach of Crédit Agricole's non-compete obligation entitles BES to exercise a call option over its stakes in BES Vida and BES Seguros. Additionally, should BES oppose the renewal of the exclusivity period, Crédit Agricole is entitled to exercise a put option over BES for its stakes in BES Vida and BES Seguros; and

- (c) certain change of control events that could occur to BES, BESPARG (namely BESPARG ceases to hold 33.33 per cent. of the voting share capital of BES or ESFG ceases to hold 50.01 per cent. of the voting share capital of BESPARG) or Crédit Agricole (namely the Caisses Regionales cease to hold directly or indirectly 50.01 per cent. of the voting share capital Crédit Agricole and a third party acquires directly or indirectly a shareholding in Crédit Agricole greater than the Caisses Regionales) entitle the counterparty to exercise a call option, in the case of BES, or a put option, in the case of Crédit Agricole. Both parties have a right of first refusal on the transfer of shares to third parties (other than intra-group transfers) and Crédit Agricole also has a tag-along right should BES be the transferring party. BES has undertaken not to acquire any shareholding in Tranquilidade or any other company under its control. Under certain circumstances, a breach of this undertaking entitles Crédit Agricole to exercise a put option right.

On 11 May 2012, BES completed its agreement, entered into with Crédit Agricole on 11 April 2012, and acquired the 50 per cent. shareholding in BES Vida that it did not already own for EUR 225 million. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business has been terminated.

8. Litigation

Save as set out below in this paragraph 8, none of ESFG, ESFIL or any other member of the ESFG Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which ESFG or ESFIL is aware) during a period covering at least the 12 months preceding the date of this document which may have, or have had, in such period a significant effect on the financial position or profitability of ESFG, ESFIL or the ESFG Group.

In December 2008, several Portuguese banks granted a loan to Banco Privado Português S.A. (BPP) secured by a personal guarantee of the Portuguese State. Following BPP's default, the Portuguese banks executed the State Guarantee. In April 2011, the Privado Clientes – Associação de Defesa dos Clientes do Banco Privado Português (Association of the Defense of Banco Privado Português Clients) initiated a judicial proceeding requiring that the payments made by the State to the banks be declared as not valid, as well as requiring restitution to the Portuguese State of the payment received within the execution of the State Guarantee, which totalled €80 million. BES presented its defence in June 2011 and the process is pending for first examination by the court.

BES paid US\$7 million covering disgorgement, pre-judgment interest and penalties in connection with a settlement with the US Securities and Exchange Commission (the "SEC") reached in October 2011. The settlement relates to the sale by BES of certain securities to US persons between 2004 and 2009, as referred to in the SEC's press release, which also states the details of, and reasons, for the settlement. BES offered brokerage services to approximately 3,800 US customers who were primarily Portuguese immigrants. In determining to accept BES' offer to settle, the SEC considered the remedial acts promptly undertaken by BES and BES' voluntarily cooperation with SEC staff.

9. Significant or material change

Save as disclosed in the “*Capitalisation and Indebtedness*” and the “*Recent Developments*” sections of this document, there has been no significant change in the financial or trading position of ESFIL since 31 December 2011 or ESFG or the ESFG Group since 31 March 2012 and no material adverse change in the financial position or prospects of ESFG, ESFIL or of the ESFG Group since 31 December 2011, the date to which the last audited consolidated financial statements of ESFG and the last audited accounts of ESFIL, which are incorporated by reference in this document in “*Incorporation by Reference*”, were prepared.

10. Auditors

The auditors of ESFG and ESFIL for the financial year ended 31 December 2011 were KPMG Luxembourg S.à.r.l. and for the financial year ended 31 December 2010 were KPMG Audit S.à.r.l., chartered accountants (a *réviseur d'entreprises agréé* and a member of the Luxembourg *Institut des Réviseurs d'Entreprises Agréés*), whose registered address is at 9 Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg. KPMG have audited the consolidated financial statements of ESFG for the two financial years ended 31 December, 2011 and 2010 and the accounts of ESFIL for the two financial years ended 31 December 2011 and 2010, in accordance with international standards on auditing as adopted for Luxembourg by the CSSF.

11. Listing and admission to trading

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for the Notes issued under the EMTN Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive) and Directive 2003/71/EC (the Prospectus Directive).

12. Documents available

For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the registered office of ESFG and ESFIL and from the specified offices of the Agent for the time being in London:

- (a) the Statuts of each of ESFG and ESFIL;
- (b) the audited consolidated financial statements of ESFG in respect of the financial years ended 31 December 2011 and 31 December 2010, in each case together with the auditors' reports in connection therewith;
- (c) the unaudited consolidated results of ESFG for the three month period ended 31 March 2012;
- (d) the audited financial statements of ESFIL in respect of the financial years ended 31 December 2011 and 31 December 2010, in each case together with the auditors' reports in connection therewith;
- (e) the Programme Agreement, the Agency Agreement (which contains the Guarantee), the most recently agreed schedule of forms (which contains the forms of the

Temporary Global Note, Permanent Global Note, Definitive Notes, the Receipts, the Coupons and the Talons);

- (f) the unaudited consolidated results of BES for the three month period ended 31 March 2012;
- (g) this Prospectus;
- (h) any future offering circulars, prospectuses, information memoranda, supplements to this Prospectus and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Agent as to its holding of Notes and identity) and any other documents incorporated herein or therein by reference; and
- (i) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

ESFG currently prepares audited consolidated accounts on an annual basis and unaudited consolidated interim accounts on a quarterly basis. ESFIL currently prepares audited accounts on an annual basis.

In addition, copies of this Prospectus and each document incorporated by reference is available on the Luxembourg Stock Exchange's website at www.bourse.lu.

13. Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping records). The appropriate Common Code and International Securities Identification Number (ISIN) for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms. Transactions will normally be effected for settlement not earlier than three days after the date of the transaction.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

14. Conditions for determining price

The price and amount of Notes to be issued under the EMTN Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

15. Post-issuance information

Unless specified otherwise in the applicable Final Terms, neither ESFG nor ESFIL intends to provide any post-issuance information in relation to any issue of Notes.

16. Dealers transacting with ESFG and ESFIL

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to ESFG, ESFIL and their affiliates in the ordinary course of business.

DEFINITIONS

“Advancecare”	Advancecare – Gestão de Serviços de Saúde S.A.
“APS”	Associação Portuguesa de Seguradores
“BAC”	Banco Espírito Santo dos Açores, S.A.
“Banco Pastor”	Banco Pastor, S.A.
“Banco Popular”	Banco Popular Español, S.A.
“BES”	Banco Espírito Santo, S.A.
“BES Angola”	Banco Espírito Santo de Angola, S.A.
“BES Group”	BES and its consolidated subsidiaries
“BES Oriente”	Banco Espírito Santo do Oriente, S.A.
“BES Seguros”	BES, Companhia de Seguros, S.A.
“Bes Vida”	BES Vida, Companhia de Seguros, S.A.
“BESI” or “Espírito Santo Investment Bank”	Banco Espírito Santo de Investimento, S.A.
“BESPAR”	BESPAR SGPS, S.A.
“BEST”	Banco Electrónico de Serviço Total, S.A.
“BESV”	Banque Espírito Santo et de la Vénétie, S.A.
“BIC”	Banco Internacional de Crédito, S.A.
“Board” or “Directors”	the board of directors of ESFG
“BPES”	Banque Privée Espírito Santo S.A. (formerly Companie Bancaire Espírito Santo, S.A.)
“BPP”	Banco Privado Português S.A.
“Clearstream”	Clearstream Banking, société anonyme
“CMVM”	Comissão do Mercado de Valores Mobiliários, the Portuguese securities market authority
“CRA Regulation”	Regulation (EC) No 1060/2009 on credit rating agencies
“Crédit Agricole”	Crédit Agricole, S.A.
“CSSF”	Commission de Surveillance du Secteur Financier

“CST” or “Tranquilidade”	Companhia de Seguros Tranquilidade, S.A.
“Directive 2003/71/EC” or “Prospectus Directive”	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “ 2010 PD Amending Directive ” means Directive 2010/73/EU
“EBITDA”	Earnings before interest, taxes, depreciation and amortisation
“ECB”	European Central Bank
“economic interest”	the percentage interest in the shareholders’ equity and net income of a subsidiary after eliminating the minority interests in such subsidiary and intermediate ESFG Group–controlled entities
“EMTN Programme”	ESFG’s and ESFIL’s €2,000,000,000 Euro Medium Term Note Programme
“EMU”	European Economic and Monetary Union
“ESAF”	ESAF – Espírito Santo Activos Financeiros, SGPS, S.A.
“ESB”	Espírito Santo Bank
“ESBD”	ES Bankers (Dubai) Limited
“ESBP”	ES Bank (Panama), S.A.
“ESCB”	European System of Central Banks
“ESFG” or “Guarantor”	Espírito Santo Financial Group S.A.
“ESFG Group”	Espírito Santo Financial Group S.A. and its consolidated subsidiaries
“ESFIL”	ESFIL – Espírito Santo Financière S.A
“ESFS”	ES Financial Services, Inc
“ESMA”	European Securities and Markets Authority
“Espírito Santo International”	Espírito Santo International S.A.
“Espírito Santo Irmãos”	Espírito Santo Irmãos SGPS, S.A
“ESS”	Espírito Santo Saúde, SGPS, S.A.
“ES Seguros”	Espírito Santo Companhia de Seguros, S.A. (now renamed)
“Esumédica”	Esumédica - Prestação de Cuidados de Saúde, S.A.

“EU”	the European Union
“Euroclear”	Euroclear Bank, S.A./N.V.
“Europ Assistance”	Europ Assistance – Companhia Portuguesa de Seguros S.A.
“Exchange Offer”	the invitation to holders of the Existing Notes and Warrants to offer their Existing Notes and Warrants for exchange in consideration for the issue of the Bonds
“Existing Notes and Warrants”	ESFG’s €500,000,000 Fixed Rate Step-up Notes due 2025 issued with 10,000 Warrants that are outstanding
“Fitch Ratings”	Fitch Ratings Ltd
“GDP”	Gross domestic product
“IFRS”	International Financial Reporting Standards
“IMF”	International Monetary Fund
“INE”	the National Statistical Institute of Portugal or <i>Instituto Nacional de Estatística</i>
“ISIN”	International Securities Identification Number
“ISP”	the Portuguese Insurance Institute or <i>Instituto de Seguros de Portugal</i>
“Issuer” or “relevant Issuer”	ESFIL – Espírito Santo Financière S.A or Espírito Santo Financial Group S.A.
“KPMG”	KPMG Luxembourg S.à.r.l. with respect to the financial year ended 31 December 2011 and KPMG Audit S.à.r.l. and for the financial year ended 31 December 2010, as the case may be
“LOGO”	Seguros Logo S.A.
“London Stock Exchange”	London Stock Exchange plc
“Luxembourg Companies Act”	the Luxembourg Law of 10 August 1915 on commercial companies, as amended
“Luxembourg Takeover Act”	the Luxembourg Law of 19 May 2006 on takeover bids
“Moody’s Investors Service”	Moody’s Investors Service, Inc.
“New Shares”	102,040,816 new Shares of ESFG issued On 26 April 2012

“NYSE Euronext Lisbon”	Euronext Lisbon – SGMR, S.A.
“PARTRAN”	PARTRAN SGPS, S.A.
“Pastor Vida”	Pastor Vida S.A. de Seguros y Reaseguros
“Regulation”	means Regulation (EC) No 809/2004 of 29 April 2004 implementing the Prospectus Directive
“Relevant Member State”	each Member State of the European Economic Area which has implemented the Prospectus Directive
“Securities Act”	the US Securities Act of 1933, as amended
“Shares” or “Ordinary Shares”	ordinary shares of no par value in the share capital of ESFG
“Shares Exchange Offer”	the invitation by ESFG on 31 October 2011 to the holders of (a) the EUR 400 million Series A Non-cumulative Guaranteed Step-Up Preferred Securities issued by ESFG’s wholly-owned subsidiary ESFG International Limited and (b) ESFG’s EUR 400 million 6.875 per cent. Subordinated Notes due 2019, to exchange up to EUR 400 million of such securities for new Shares, and which completed on 21 November 2011
“Stabilisation Programme”	IMF/Eurozone Stabilisation Programme
“Standard & Poor’s”	Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc.
“Statuts”	the Articles of Association of ESFG, as most recently amended on 26 April 2012
“Tender Offer”	the invitation to holders of the Existing Notes and Warrants to offer their Existing Notes and Warrants for sale for purchase by ESFG for cash
“T-Vida”	T-Vida, Companhia de Seguros, S.A.
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the UK Financial Services and Markets Act 2000
“United States” or “US”	the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia

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