



# Annual Report '13



ARTIST: Andrea Altemuller  
TITLE: Morro Branco (White Hill), Brazil 2009  
TECHNIQUE: Photography  
SIZE: 80 x 120 cm

**COVER**

ARTIST: Lucas Lenci  
TITLE: O lado mais bonito de se ver (The Best Side), 2013  
TECHNIQUE: Photography  
SIZE: 150 X 200 cm

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# Message from the CEO

Dear Sirs,

2013 was marked by the overcoming of challenges, as well as a series of successful events. BESI Brasil carries in its DNA the tradition of always pursuing the best solution to create value for its clients and we are proud to say that last year we provided them with all the support they needed to continue on their trajectory of growth and achievement.

The photograph entitled O Lado Mais Bonito de Se Ver (The Best Side), by Lucas Lenci, which illustrates the cover of our report, reinforces our optimism and our satisfaction with the year's results. BESI Brasil traditionally supports the arts and culture, and no other work could better express the moment we are living through. In line with this tradition, in 2013 we funded various social, cultural and environmental projects through the incentive laws, including the traditional BESPhoto, the Group's international photography competition brought to Brazil two years ago by BESI Brasil.

Among the year's highlights, it is particularly worth mentioning our financial results. We closed 2013 with a net profit of R\$40.9 million, corresponding to a return of 6.4% on initial equity of R\$640.7 million, 31.9% up on the R\$31.0 million posted in 2012, underlining our ability to weather the year's economic adversities. We conducted important operations in the project finance, M&A and capital market areas, strengthening the Bank's presence in the domestic market, particularly in the infrastructure segment.



# Our experience and background allows us to **innovate** and adopt a flexible stance in a challenging environment

BESI Brasil's performance made a substantial contribution to the Group's overall result, accounting for 27% of total revenue in 2013 and 134% of BESI Portugal's net profit, strengthening the Group's internationalization strategy, as well our positioning as an important support center for international transactions by Brazilian companies and companies from other locations which are also undergoing an internationalization process.

In 2014, the Brazilian and global scenarios are still characterized by uncertainties and challenges, but we believe our expertise in the domestic and global markets will provide our clients with valuable support. Sharing the tradition of the Banco Espírito Santo Group, BESI Brasil is a solid bank with many years of experience in assisting transactions, a background that allows us to innovate and adopt a flexible stance in a challenging environment. It is this attitude that helped us achieved the results we have and we believe the same attitude will guarantee the longevity of our future operations.

We would like to thank our clients, employees and shareholders for their support, which has proved invaluable in fueling our results and allowing us to constantly improve our products and services.

**Ricardo Espírito Santo**

CEO

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# Corporate Profile

## HISTORY

Espírito Santo Investment Bank - Brasil (BESI Brasil) is an investment bank, which has been present in Brazil for 13 years. Controlled by BES Investimento - Lisboa, of the traditional Banco Espírito Santo Group (80%) and Banco Bradesco S.A (20%), BESI Brasil provides financial advisory services in the project finance, capital market, treasury, risk management, structured operation, privatization and merger and acquisition areas. It also offers credit for transactions related to investment banking activities, as well as operating in securities brokerage (through its subsidiary BES Securities), asset management (through its subsidiary BESAF), wealth

management (through its subsidiary BES DTVM) and private equity (through 2bCapital, in association with Banco Bradesco).

Outside the financial area, BESI Brasil holds an 11.11% interest in EBP - Estruturadora Brasileira de Projetos, whose mission is to design infrastructure projects for concessions and PPPs (public-private partnerships), projects that contribute to Brazil's social and economic development, thus creating investment opportunities for the private sector.

## BANCO ESPÍRITO SANTO GROUP

The Banco Espírito Santo Group (GBES), present in Brazil for 38 years, has been operating for 145 years and is the Portuguese bank with the highest market cap and the country's second largest private financial institution. GBES is a diversified financial group, holding outstanding positions in retail banking, investment banking, private banking and asset management. It is also Portugal's most internationalized financial institution, maintaining a presence in the country's most important markets: Spain, France, Italy, the United States, Brazil, Angola, Cape Verde and Macau (China).

## BANCO BRADESCO

The partnership between GBES and Banco Bradesco S.A. goes beyond the latter's indirect interest in BESI Brasil. GBES retains 1.6% of Banco Bradesco's voting capital, while Banco Bradesco holds 4.8% of Banco Espírito Santo in Portugal.



ARTIST: ANDREA ALTEMULLER  
TITLE: Thai Muang, Thailand 31\_2008  
TECHNIQUE: Photography  
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## PRESENCE IN BRAZIL

### 1976

Beginning of the Group's financial activities in Brazil, through Banco InterAtlântico.

### 1980

Grupo Monteiro Aranha becomes an associate, acquiring a 50% stake.

### 1982

Banco JP Morgan acquires 50% of Banco InterAtlântico.

### 1987

Banco Crédit Agricole acquires Banco JP Morgan's interest in Banco InterAtlântico.

### 1997

Acquisition of Banco Boavista and creation of Banco Boavista InterAtlântico, whose ownership structure at the time was GBES (40%), Crédit Agricole (40%) and the Monteiro Aranha Group (20%).

### 2000

Sale of Banco Boavista InterAtlântico to Banco Bradesco through a stock swap. GBES acquires 3.25% of Banco Bradesco.

Creation of Espírito Santo Investment Bank – Brasil and BES Securities (GBES 80% and Bradesco 20%).

### 2002

Bradesco acquires 3% of Banco Espírito Santo in Portugal (subsequently increased to 6%).

### 2004

Implementation of the asset management area through BES Ativos Financeiros – BESAF.

### 2006

Beginning of private equity operations, with the acquisition of 14.35% of Companhia Providência (subsequently reduced to 9.5%).

### 2008

GBES acquires 8.2% of the voting capital of Banco Bradesco (subsequently reduced to 1.66%).

### 2009

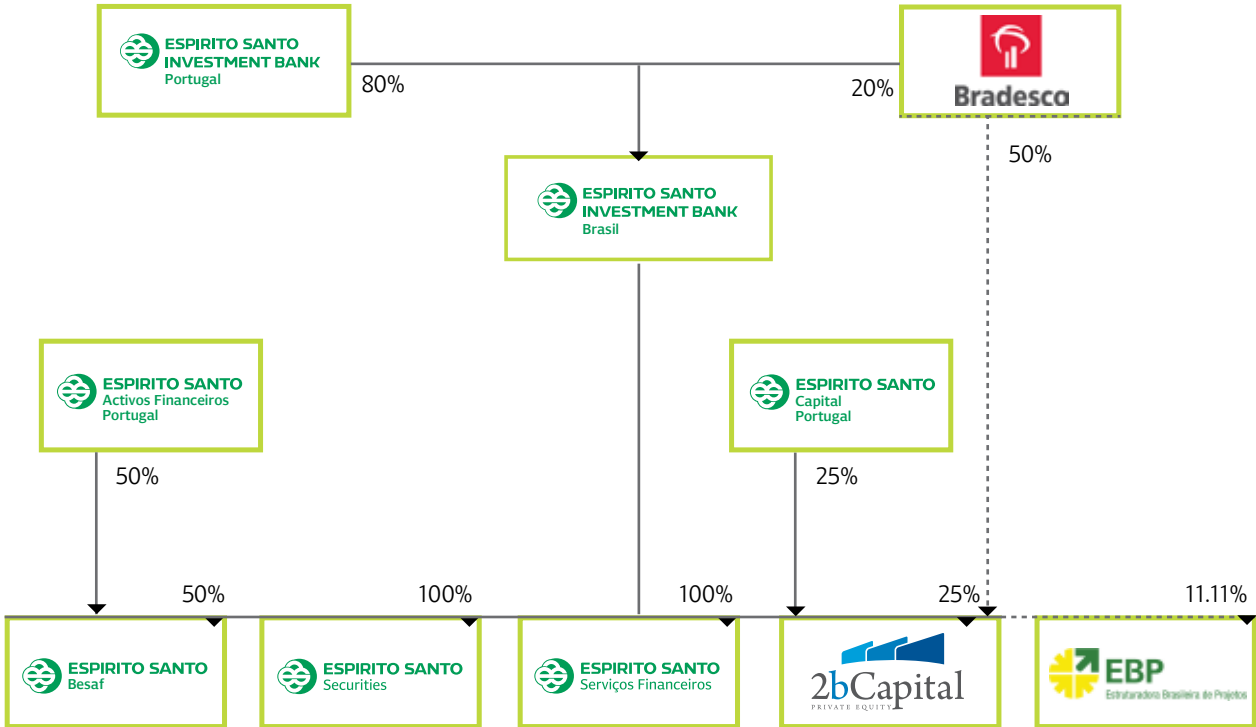
Creation of 2bCapital, a private equity fund manager (GBES 50% and Banco Bradesco 50%).  
Beginning of wealth management activities through BES Refran (Multi Family Office), subsequently BES DTVM.

### 2013

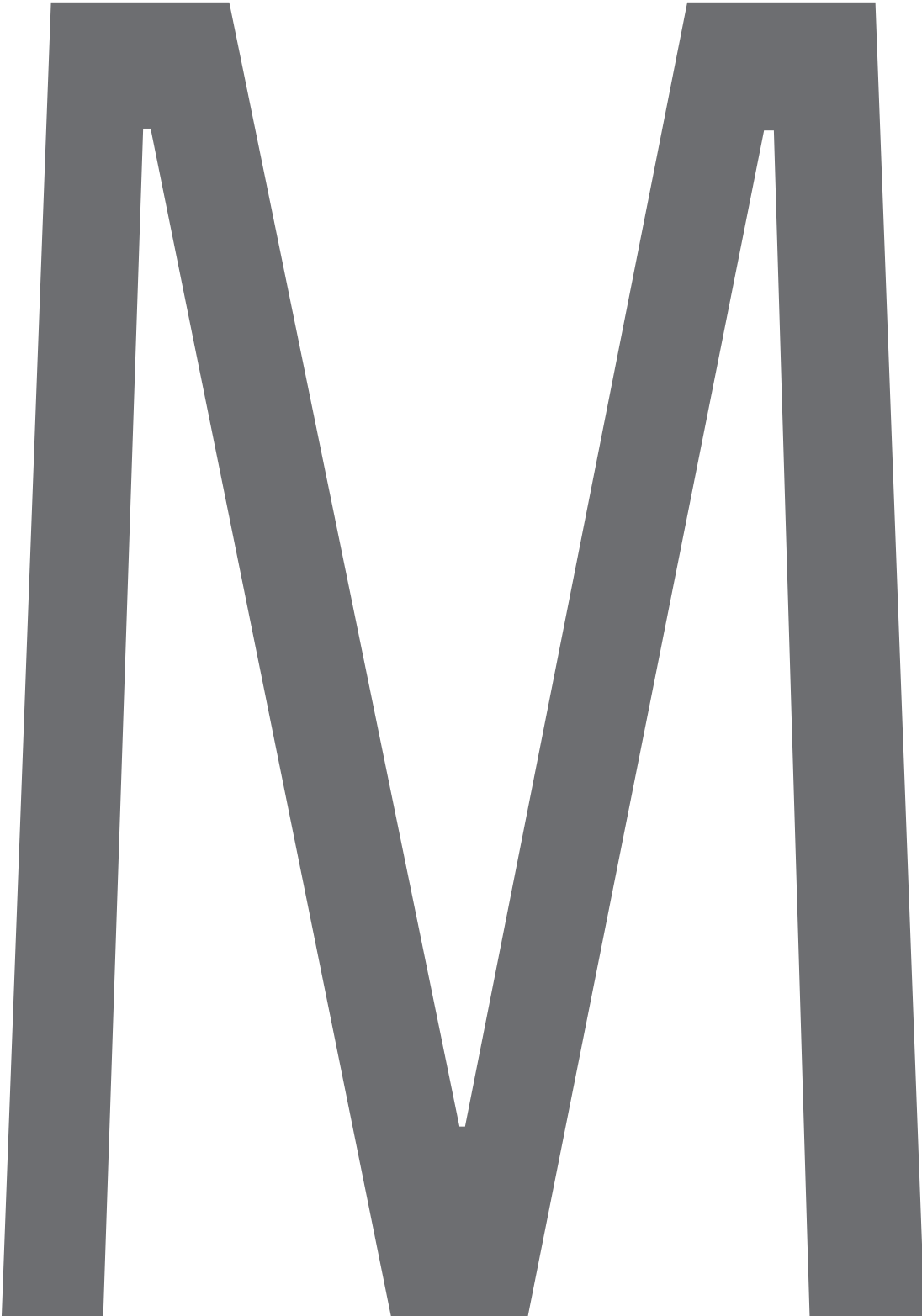
Receives approval from the Brazilian Securities and Exchange Commission (CVM) to unify fund and wealth management activities in Brazil, allowing BESAF and BES DTVM to work together as of 2014. The new structure will have slightly more than R\$2 billion in assets under management and should generate synergy gains and savings of up to 18% of the expenses of both companies.



### OWNERSHIP STRUCTURE



**Mission**



TO OPERATE WITH RESPONSIBILITY, ALWAYS SEEKING  
TO CREATE VALUE FOR ITS CLIENTS, EMPLOYEES,  
SHAREHOLDERS AND SOCIETY AS A WHOLE.

TO OPERATE WITH A SUSTAINABLE STRATEGY IN LINE  
WITH A COMPETITIVE MARKET POSITIONING AND ALWAYS  
RESPECTING ITS CLIENTS AND EMPLOYEES.

TO ACTIVELY CONTRIBUTE TO THE SOCIAL, CULTURAL,  
ECONOMIC AND ENVIRONMENTAL DEVELOPMENT OF ITS  
SURROUNDING COMMUNITIES.

## PRINCIPLES AND VALUES

BESI Brasil's principles and values are as follows:

### OWNERSHIP

- To exhibit a clear and affirmative willingness to be and continue to be an active and participatory member of the Bank.
- To fully experience the Bank's successes and difficulties, as if they were their own.
- To demonstrate a strong sense of responsibility in regard to the performance and risks of the Bank and its clients.

### DEALING WITH CLIENTS

- To acquire, maintain and develop clients' trust, acting in partnership and actively contributing to adding value to their businesses.
- To understand and act in consonance with clients' needs, creating stable, loyal and long-lasting relationships and providing them with all the skilled support they need in the ups and downs of their respective business cycles.

### DEALING WITH EMPLOYEES

- To respect employees' dignity, offering opportunities for their personal and professional growth and always appreciating their knowledge, abilities and individuality.

## ACHIEVEMENT CAPACITY

- To conduct operations in such a way as to achieve the proposed goals, adopting a practical and sensible approach to the tasks needed to do so.
- To adopt best market practices in order to ensure service excellence and the balanced and responsible management of technical, human and capital resources.

## EXCELLENCE

- To demonstrate quality and potential through innovative and creative solutions, constantly seeking perfection, paying attention to detail and achieving results that exceed expectations.
- To provide objective and effective advisory services supported by acquired technical skills and knowledge of products and markets.
- To adopt an independent position, acting in the best interests of the client, even if this means advising against the conclusion of the operation in question.

## LEARNING CULTURE

- To engage in the constant pursuit of knowledge and innovation, promoting the diversity of ideas and sharing information in order to make the Bank a benchmark for originality.
- To seek and consolidate the leadership of the business areas and markets where we operate, achieving more and better transactions than our competitors.


## COMMUNICATIONS AND INDEPENDENCE OF OPINION

- To provide clear and objective opinions and standpoints, valuing information, assertively stating our opinions while at the same time giving others the space to express their own opinions.
- To adopt a consistent, non-hierarchical open-door communications policy with people from all levels of the organization, thus ensuring transparency.

## THINKING AND ACTING GLOBALLY

- To be aware of global tendencies that affect the business and to be informed on significant global developments, being capable of assessing the possible impacts on the local business and vice-versa.
- To respect the differences between the Bank's various locations, always ensuring business integrity.
- To develop our activities in those areas where we are most technically and commercially proficient and can add real value to our clients.

To be  
transparent  
and just in  
regard to our  
activities and the  
information we  
disclose



## ETHICS AND TRANSPARENCY

- To respect the prevailing regulations and establish corporate rules in the development of the business, always behaving in accordance with the Bank's overall interests.
- To maintain high level of transparency in regard to accounts, annual reports and other corporate documents, ensuring that employees, shareholders, regulatory agencies, clients and the market in general have all the information they need to understand the Bank's activities and results.
- To be transparent and just in regard to our activities and the information we disclose.
- To only commit to what we are really capable of delivering.

## SUCCESS GUIDELINES

- Determination in the pursuit and accomplishment of solutions that best ensure and maximize the success of our clients in overcoming the challenges they face.

## SOCIAL RESPONSIBILITY

- Adoption of a posture of commitment and social and ethical responsibility with our employees, clients, partners, suppliers, the community and the environment.

### **MAIN INDICATORS IN 2013 (RESULT HIGHLIGHTS)**

- Total assets came to R\$8.09 million, 21.3% up on December 2012.
- Short-term interbank investments, securities and financial derivative instruments portfolio of R\$5.48 million, 13.8% more than in December 2012.
- The loan portfolio amounted to R\$2.12 million, growth of 39.4% over December 2012.
- Global funding totaled R\$6.55 million.
- Deposits increased by 28% over December 2012, to R\$1.3 billion.
- Equity came to R\$665.7 million, versus R\$640.7 million in December 2012.
- The capital adequacy ratio (Basel Index) stood at 14.2%, appropriate for the Bank's activities.

| <b>RESULT (in millions of Brazilian Reais)</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2009</b> | <b>Chg.<br/>2013/2012</b> |
|--|-------------|-------------|-------------|-------------|-------------|---------------------------|
| Financial intermediation revenue               | 720.3       | 655.9       | 788.0       | 362.9       | 352.0       | 9.8%                      |
| Financial intermediation expenses              | (604.9)     | (577.9)     | (692.9)     | (280.1)     | (252.0)     | 4.7%                      |
| Gross income from financial intermediation     | 115.4       | 78.0        | 95.1        | 82.8        | 100.0       | 47.9%                     |
| Fee income                                     | 44.7        | 48.4        | 70.0        | 44.2        | 37.2        | (7.6%)                    |
| Operating expenses                             | (93.2)      | (72.3)      | (72.4)      | (61.7)      | (65.5)      | 28.9%                     |
| Personnel and administrative expenses          | (81.9)      | (64.2)      | (59.9)      | (49.9)      | (45.7)      | 27.5%                     |
| Tax expenses                                   | (11.3)      | (8.1)       | (12.5)      | (11.8)      | (19.8)      | 40.0%                     |
| Equity income                                  | (1.4)       | 3.1         | 12.0        | 37.2        | 54.1        | (143.9%)                  |
| Operating income                               | 67.2        | 63.6        | 114.2       | 88.0        | 125.1       | 5.6%                      |
| Profit before taxes and interest               | 67.2        | 63.6        | 114.2       | 89.3        | 125.4       | 5.7%                      |
| Net profit                                     | 41.0        | 31.1        | 70.8        | 71.1        | 94.2        | 31.9%                     |

#### **PROFITABILITY AND EFFICIENCY**

|  |         |         |         |         |         |           |
|--|---------|---------|---------|---------|---------|-----------|
| Total assets                                 | 8,096.4 | 6,673.4 | 6,631.5 | 6,007.8 | 4,131.9 | 21.3%     |
| Equity                                       | 665.7   | 640.8   | 522.2   | 476.4   | 421.5   | 3.9%      |
| Net profit                                   | 41.0    | 31.1    | 70.8    | 71.1    | 94.2    | 31.9%     |
| Dividends and interest on equity distributed | 16.4    | 12.5    | 25.0    | 25.1    | 24.8    | 31.2%     |
| Return on Average Assets (ROAA)              | 0.6%    | 0.5%    | 1.1%    | 1.4%    | 2.5%    | 0.1% pp   |
| Return on Average Equity (ROAE)              | 6.3%    | 5.3%    | 14.2%   | 15.8%   | 28.0%   | 0.9% pp   |
| Total equity/total assets ratio              | 8.2%    | 9.6%    | 7.9%    | 7.9%    | 10.2%   | (1.4%) pp |
| Efficiency ratio                             | 65.6%   | 64.0%   | 50.2%   | 48.7%   | 35.7%   | 1.6% pp   |

#### **SOLVENCY**

|             |       |       |       |       |       |           |
|-------------|-------|-------|-------|-------|-------|-----------|
| Basel Index | 14.2% | 16.1% | 15.6% | 15.6% | 22.9% | (1.9%) pp |
|-------------|-------|-------|-------|-------|-------|-----------|

#### **RATINGS**

|                 |     |     |     |      |      |  |
|-----------------|-----|-----|-----|------|------|--|
| Standard&Poor's | BB- | BB- | BB  | BBB- | -    |  |
| Moody's         | Ba3 | Ba3 | Ba2 | Baa2 | Baa2 |  |

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# Our Business

## SCENARIOS

### INTERNATIONAL ECONOMIC SCENARIO

If 2013 can hardly be described as a boom year for the global economy, at least there is a general consensus that the worst is behind us. Looking at the performance of those economies worst hit by the crisis – the U.S., Japan, the UK and the Eurozone – we can see that growth consolidated at around 2% in the United States, which appears to have become the new American potential – while the Japanese and British economies picked up a little bit of steam and the Eurozone shrinkage began to show signs of a turnaround. This less dramatic scenario brought some relief to the economic agents but the fragility of the improvement underlined the need for the policy-makers to preserve a large part of the government stimuli.





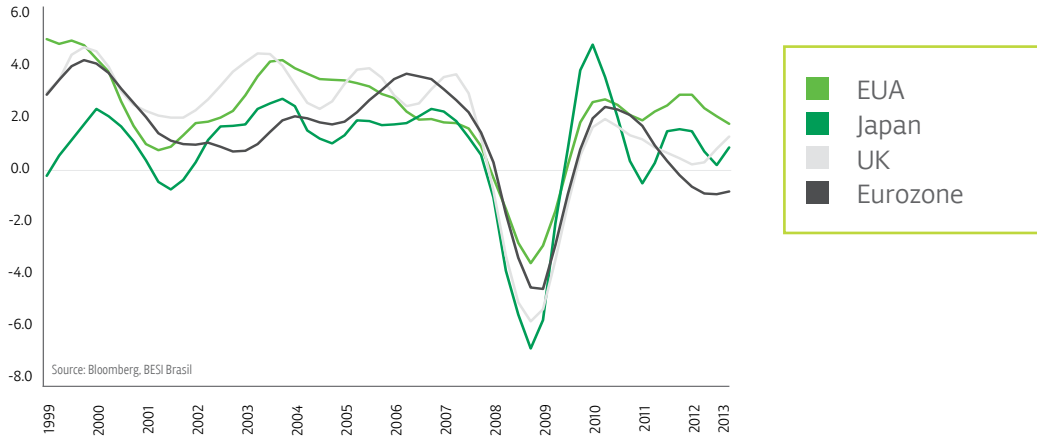
ARTIST: Renan Cepeda  
TITLE: Casa Roxa com árvore (Pink House with Tree), 2012  
TECHNIQUE: Photography, Pigment on cotton paper  
SIZE: 50CM x 50CM

ARTIST: Renan Cepeda  
TITLE: Freimann I, 2012  
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TITLE: Satú 1, 2004  
TECHNIQUE: Photography, Pigment on cotton paper  
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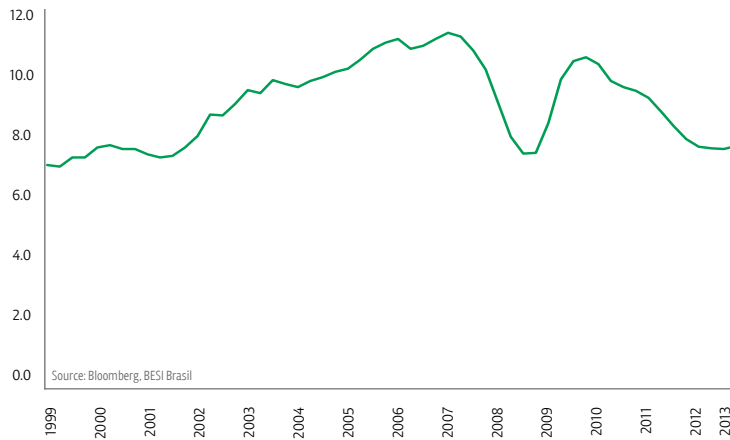
ARTIST: Renan Cepeda  
TITLE: Vando Grade, 2012  
TECHNIQUE: Photography, Pigment on cotton paper  
SIZE: 50CM x 50CM

**GDP growth (% variation in the last four quarters, selected economies)**



As important as the improvement in the major economies was confirmation that the Chinese economy has avoided an uninterrupted downward trajectory, which could have jeopardized the prices of several commodities as well as the growth prospects of other emerging and advanced economies for whom China is a vital trading partner. In addition, fear of an abrupt and continuous Chinese slowdown had a major influence on financial asset prices worldwide.

### Chinese GDP growth (% variation in the last four quarters)



However, perception that the economy was improving had an even bigger effect on asset prices, especially considering that the Federal Reserve became more confident about discussing the beginning of the monetary easing process. This had a material impact on the future U.S. yield curve, which began pricing in the possibility of a sudden reversal in the Fed Fund rate, despite the FOMC's denials. According to Committee members, what they were discussing was the halting of additional stimuli, not the removal of existing ones. In other words, it was not a question of introducing measures that could lead to tighter liquidity conditions, but avoiding an even greater loosening of these same conditions.

### 10-year U.S. Treasury Yields (% p.a.)



The persistent declarations of the FOMC led to an exceptionally atypical situation in regard to U.S. financial asset prices. Although it insisted that it would not be raising benchmark interest rates in the immediate future, its refusal to introduce additional stimuli was seen as an indication the only direction now for the Fed Fund rate is up. At the same time, the maintenance of extremely loose monetary conditions continued to signify abundant liquidity, in turn fueling the stock market indices. Consequently, we witnessed a scenario in which both fixed-income securities and equities presented an upward trajectory.

#### **S&P 500 – points**



This combination gives us an idea of how the agents were thinking at the end of 2013: the economic recovery is in progress and companies should therefore benefit from the added momentum. At the same time, this process will enable the reversal, albeit gradual, of the various tax and monetary incentives so that we do not enter into a new situation of imbalance. All in all, therefore, it seems that 2013 brought a more optimistic note to the global economy.

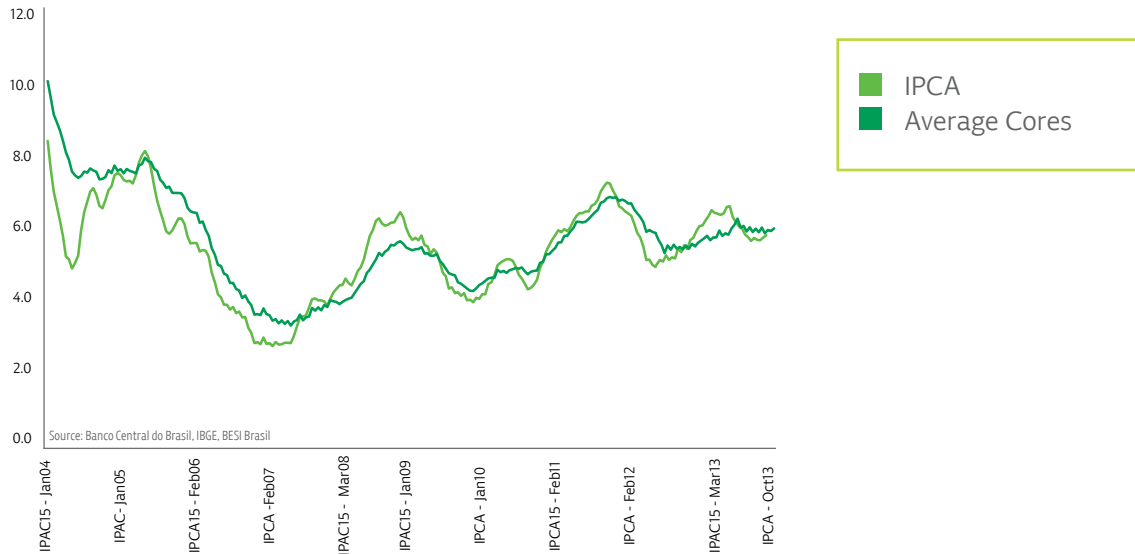
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## BRAZILIAN ECONOMIC SCENARIO

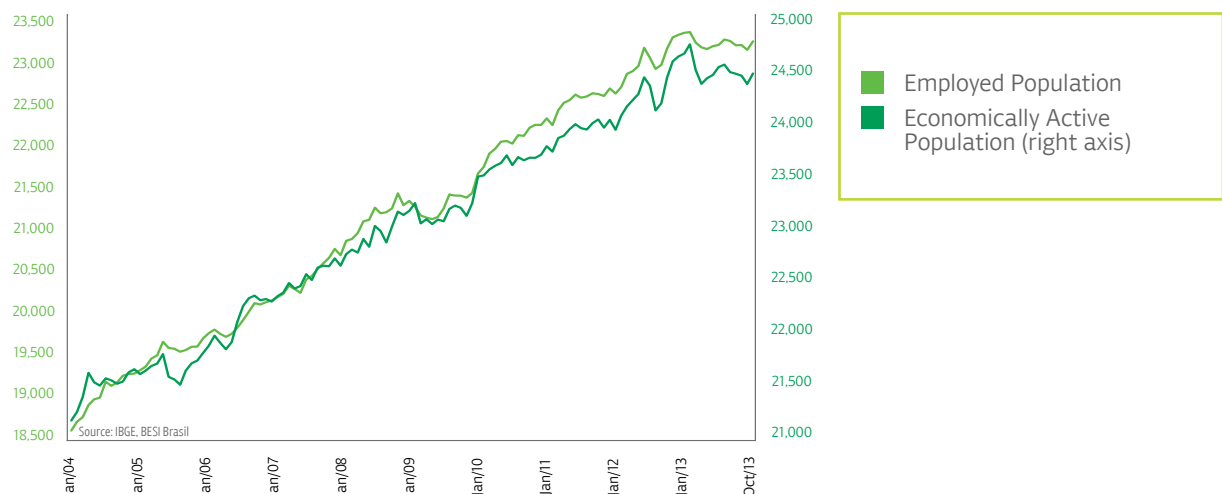
Once again, Brazil's economic performance left much to be desired, with a deepening of the imbalances arising from the maintenance of an economic policy favoring the expansion of consumption to the detriment of an increase in the country's production capacity. It is no accident, therefore, that two classic consequences of this type of distortion are becoming increasingly apparent: high inflation and a reduction in the current account balance.

### Consumer Price Index (% YoY)



In regard to prices, the mismatch between aggregate supply and demand growth kept inflation above the officially established targets despite the "aid" from the reduction in electricity tariffs as a result of negotiations between the government and certain hydropower plant concessionaires. The service industry was chiefly responsible for this pressure, given Brazil's exceptionally low unemployment rate which has been driving wages, especially in this sector.

### Unemployment Trends



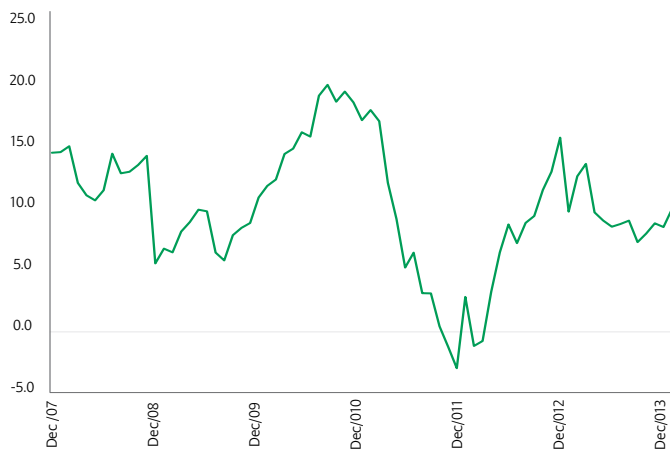
If, on the one hand, the increase in the wage bill has pressured service sector costs, on the other it helped support the upturn in expansion, underlined by the retail industry's virtually uninterrupted upswing. However, due to insufficient supply, Brazilian consumers increasingly resorted to foreign suppliers, generating a severe deterioration in the current account balance throughout 2013. Together with concerns over the trajectory of U.S. interest rates, this worsening in the key component of the balance of payments helped weaken the Brazilian real and reinforced existing inflationary pressures.

### BRL/USD Exchange Rate



It is true that if there had been an accommodation in any of the components of aggregate demand, these consequences could have been avoided. The natural candidate to personify this altruistic attitude was the Brazilian government, since it would avoid the sacrifice of the private sector in both consumption and investment terms. However, it continued to loosen the tax tourniquet, which only added to the inflationary pressure and raised doubts regarding the quality of Brazilian sovereign credit.

### Discretionary Expenses (real LTM %)



Given so many challenges and mixed messages, it was virtually impossible for investors to view the prospects of the Brazilian stock market with any kind of optimism – even less so when the Central Bank began pushing up the benchmark interest rate to keep inflation from getting out of control. Although this was certainly a step in the right direction, it was insufficiently intense, as can be seen from the inflationary trajectory. Given this further setback, it is hardly surprising that the Brazilian stock market was unable to perform with distinction.

#### Ibovespa Index



To sum up, although the Brazilian government began 2013 with a different discourse, it ended up following the same path as in the previous year. It was hardly surprising, therefore, that 2013's results were once again unsatisfactory, underlined by the price of Brazilian assets.

Although the Brazilian government began 2013 with a different discourse, it ended up following **the same path as in the previous year**

## CLIENT MANAGEMENT

BESI - Brasil's commercial area focuses on attracting and retaining Corporate clients. In 2013, its operations followed the Bank's strategy, seeking to strengthen existing relations and create new business in different locations, while working ceaselessly to expand its client base.

## ORIGINATION

Despite the challenges imposed by the market in 2013, the Commercial area (Client Bankers) achieved its targets in regard to originating new relationships and transactions and improved its product and service mix, including advisory (M&A), credit, capital markets, treasury and derivatives, and development lines, resulting in improved cross-selling and a 30% increase in the Bank's result over the year before. 2013 also saw a positive consolidation of the Bank's client portfolio and, taking advantage of the strength of Brazil's infrastructure sector, the area's main targets were related to this segment. In addition, the team has been constantly attempting to add more sector expertise to its client relations, allowing it to add competitive advantages both in terms of products and banking solutions, consolidating its image as a Bank of intelligence. Its constant presence, together with the offer of a diversified range of products and solutions, has allowed the Bank to strengthen ties with existing clients and attract new customers.

Also in 2013, the Bank created the Business Committee, which assesses the strategies of existing and prospective clients in order to gain a deeper understanding of their needs, aligning the Bank's operational strategy with these needs and optimizing the offering of products and solutions.

Nevertheless, despite the turbulent international scenario, the series of demonstrations at home and the other domestic political and economic events that lowered investors' interest in the Brazilian market, the country still experienced increased appetite for fixed-income and treasury products.

Together with the Communication and Image team, the area promoted meetings and relationship events in order to maintain the BESI brand's presence in the daily activities of its clients and take advantage of networking opportunities.

In 2014, the market is expected to be more reserved due to the hosting of the World Cup and the presidential elections. Nevertheless, there is still plenty of room for investments and opportunities, especially in the infrastructure sector, through project finance transactions and the roll-over of major corporate debt. The Commercial area will continue to invest in strengthening ties with clients and identifying more opportunities with companies in the Corporate segment, a growing and increasingly professionalized market in Brazil.



## EXECUTIVE COMMERCIAL AREA

The Bank's Executive Commercial Area is divided into six sector clusters, all of which coordinated by a senior banker, supported by a research team, with the intention of generating sector intelligence. Its main procedures are transaction origination, client relations management, increasing sector specialization and credit analysis. The different clusters are shown below:

### Executive Commercial Area

| ▶ <b>Cluster 1</b>  | ▶ <b>Cluster 2</b>   | ▶ <b>Cluster 3</b>   | ▶ <b>Cluster 4</b>  | ▶ <b>Cluster 5</b>  | ▶ <b>Cluster 6</b>   |
|---|--|--|---|---|--|
| <ul style="list-style-type: none"><li>- Infrastructure (except highways)</li><li>- Water, sanitation</li><li>- Municipalities</li><li>- Transportation</li><li>- Services</li><li>- Equipment</li><li>- Mineral extraction</li><li>- Pharmaceutical</li><li>- Biotechnology</li></ul> | <ul style="list-style-type: none"><li>- Food</li><li>- Distribution</li><li>- Beverages</li><li>- Metal containers</li><li>- Textiles</li><li>- Ceramics</li></ul> | <ul style="list-style-type: none"><li>- Energy</li><li>- Petroleum and derivatives</li><li>- Paper, pulp and packaging</li><li>- Paperboard</li><li>- Wood</li><li>- Cork</li><li>- Automotive</li></ul> | <ul style="list-style-type: none"><li>- Media</li><li>- Telecom</li><li>- Chemicals</li><li>- Glass</li></ul> | <ul style="list-style-type: none"><li>- Construction</li><li>- Cement</li><li>- Building materials</li><li>- Highways</li><li>- Banks</li><li>- Insurance</li></ul> | <ul style="list-style-type: none"><li>- Real estate</li><li>- Tourism</li><li>- Hotels</li></ul> |

## INTERNATIONAL PREMIUM UNIT (UIP)

The International Premium Unit is a BES Group international cluster for advisory services and the generation of cross-border business. In addition to helping international clients that want to invest in Brazil, BES1 Brasil's UIP operates in conjunction with other UIPs, helping Brazilian companies to develop business in other locations where the Bank is present.

Accordingly, the Commercial area continued to provide the necessary support to foreign companies wanting to expand their businesses to the Brazilian market and benefit from the increasingly international presence of the BES Group. In 2013, the Bank used the structure of its UIP to conduct several operations in the treasury, risk management, capital market, project finance, acquisition finance and other financing and financial service areas.

## CAPITAL MARKET

2013 was a challenging year for the Brazilian capital market and there was an overall decline in the volume of new issues and the market's fee pool. Despite this scenario, BESI Brasil's Capital Market area posted a significant increase in activity, concluding more than 12 transactions and generating revenue 45% higher than in 2012.

## FIXED INCOME

### DOMESTIC SEGMENT:

In 2013, domestic fixed-income offerings totaled R\$127.3 billion, 22% down on the R\$163.9 billion recorded in 2012, most of which (84.2%) distributed with restricted placement efforts (ICVM 476), demonstrating the strong appetite of issuers and financial institutions for this type of transaction and the low dispersal of these instruments by institutional investors.

Debentures headed the volume rankings, accounting for 46.7% of the total, followed by commercial papers, with 33.5%, FIDCs (credit receivables investment funds), with 9.9%, and CRIs (mortgage-backed securities, also with 9.9%).

Throughout 2013, BESI Brasil participated in six debenture and commercial paper issues as follows:

- Joint Bookrunner in the issue of Rodovias do Tietê Infrastructure Debentures totaling R\$1,065 million, an innovative market transaction in that it was the first debenture issue with international placement efforts via the REG-S/ 144 rule;
- Joint Bookrunner in the issue of Santo Antônio Energia Infrastructure Debentures, in the amount of R\$420 million;
- Joint Bookrunner in the issue of IE Madeira Infrastructure Debentures, totaling R\$350 million;
- Sole Lead Manager in the issue of Unidas Debentures, in the amount of R\$120 million;
- Sole Lead Manager in the issue of Abengoa Brasil Debentures, totaling R\$75 million; and
- Joint Bookrunner in the issue of Luft Commercial Papers, in the amount of R\$100 million.



The area concluded more than 12 transactions in 2013 generating revenue 45% higher than in 2012

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As a result of its strong participation in these segments, BESI Brasil was ranked in ANBIMA's top 10 in the domestic market long-term fixed-income origination category.

It is also worth noting the Bank's position in the infrastructure debenture segment, a result of joint action between the Capital Market and the Project Finance areas. In 2013, BESI carried out three such transactions, including the Rodovias do Tietê offering, the largest and most liquid infrastructure debenture issue until then.



## INTERNATIONAL SEGMENT

International fixed-income segment volume totaled US\$38.1 billion in 2013, 36% down on the US\$51.5 billion recorded in 2012. Investment grade issuers accounted for approximately 75% of new issue volume in 2013.

In this segment, BESI Brasil continued its strategy of bringing new issuers to the market and participated as:

- Joint Bookrunner in Andrade Gutierrez's first bond issue, in the amount of US\$500 million; and
- Sole Lead Manager in OMNI's first bond issue, totaling US\$30 million;



## EQUITIES

The performance of emerging nation stock markets in 2013 was, in general, negative. The gradual recovery of the U.S. and European economies resulted in substantial capital relocation to these countries, to the detriment of the emerging markets. Given this scenario, the Ibovespa recorded an annual decline of 15.5%. Even though the volume of Bovespa issues increased significantly over 2012, from R\$14.3 billion to R\$23.8 billion, this figure was strongly influenced by the IPO of BB Seguridade, which accounted for around 50% of the total.

Continuing with its efforts in the Equity segment, BESI Brasil participated as:

- Joint Bookrunner in the follow-on offering of BHG – Brazil Hospitality Group, totaling R\$355 million.

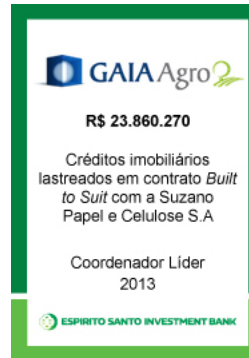


## STRUCTURED PRODUCTS

Issued FIDC and CRI volumed came to R\$20.4 billion, 21.7% up on the R\$16.7 billion issued in 2012.

In regard to structured operations, BESI participated as:

- Joint Bookrunner in OMNI's FIDC issue, in the amount of R\$118 million, the first FIDC in the Brazilian market following the new CVM rule;
- Sole Lead Manager in Gaia Sec (Suzano)'s CRI issue, totaling R\$23.8 million, the first CRI transaction structured by BESI.



Investment grade issuers accounted for approximately **75% of new issue volume in 2013**

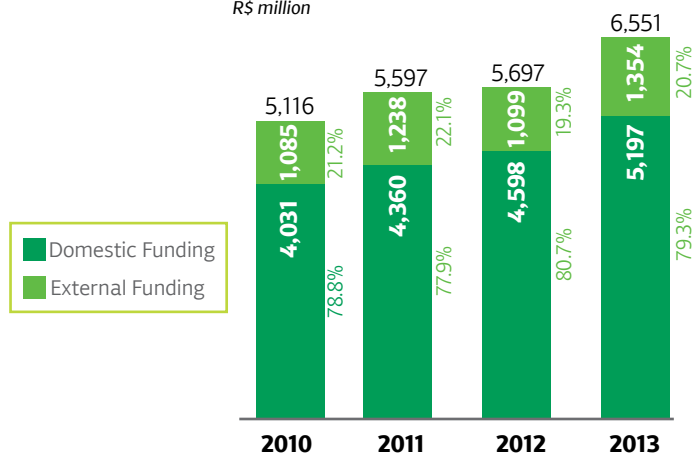
## TREASURY

BESI's treasury is divided into four areas: Funding, Global Markets, Risk Management and Fixed Income (Trading and Sales).

## FUNDING

### Evolution of Funding

R\$ million



In 2013, BESI Brasil continued with its business plan, begun in 2012, of focusing on the diversification of sources and improving the Bank's funding profile, in addition to increasing the investor base.

Europe's improved situation and the market's positive perception of the measures implemented by Portugal to overcome its current problems in turn improved investors' perception of the Bank, enhancing the prospects for new and longer-term operations. As a result, in 2013 the Funding area extended the profile of its deposit portfolio (CDBs) by moving into less liquid transactions with terms of between 90 and 180 days. Another important initiative was the change in the profile of the LCA (agribusiness letters of credit) portfolio, which is now focused on Wealth segment investments, resulting in extended terms and durations. The Bank also increased the use of its Private Security portfolio in order to manage the liquidity of Corporate and Institutional clients.

Thanks to the upturn in volume raised, BESI Brasil was able to meet demand from funding consumers with no restrictions, as well as speed up the buyback of the external BESI-15 issue, begun in 2012.

In regard to Cayman transactions, BESI Brasil was effective in obtaining funds to support growth of the loan portfolio, achieving attractive margins. This channel has proved to be a good source of profitability.

These funds have been structured through collateralized loans, allowing the balance of BESI Brasil to support the Cayman loans.

As a result of the increase in funding in 2013, the Bank's liquidity remained high (R\$1.15 billion), substantially exceeding the average adequacy level.

## GLOBAL MARKETS

In 2013, the high degree of government intervention in the economy was reflected in the agents' low level of confidence, meager investments and the deterioration of the external accounts and fiscal figures. The domestic scenario, together with the recovery of confidence in the developed markets, led to an upturn in international long-term reference yield curves. Given these factors, market, bank treasury and investment fund performance were marked by volatility and uncertainties.

BESI Brasil's approach throughout 2013 was to focus on opportunities for strategically positioning capital, entering and leaving the market at the most appropriate moment. As a result, the Global Markets area did very well, especially in the months of June and December. As for 2014, the Bank believes the beginning of the year will still be marked by lack of investor confidence in the Brazilian scenario and the area's strategy of taking maximum advantage of market opportunities is likely to continue.

## RISK MANAGEMENT

Since 2012 BESl Brasil's Risk Management area has been strengthening its four main pillars: increasing flow and the UIP portfolio, greater proximity to clients with derivatives potential, creating structures to support Cayman branch operations, and optimizing ALM (Asset Liability Management). As a result of this strategy, revenue moved up substantially over the year before to R\$23.4 million, an excellent result in a highly competitive market.

The year's highlights included growth in the volume of foreign exchange operations, mainly with clients from the UIP. As of May, when a negative tendency in regard to Brazil's currency began to make itself felt, derivative transactions became more popular. Although concentrated in a few clients, these operations proved highly profitable.

In 2013, the Risk Management area joined forces with the Global Markets area, increasing competitiveness and enabling transactions that were crucial for the annual result. It also proved feasible to structure collateralized dollar funding operations with assets from the domestic portfolio. These funds formed the basis for the Cayman loan portfolio growth, with healthy spreads.

## FIXED INCOME – TRADING AND SALES

In addition to playing an important role in primary market operations, such as the Santo Antonio Energia, IE Madeira, Rodovias do Tietê and Unidas debenture issues and Omni's credit receivables offering, BESl Brasil continued to promote liquidity in the local secondary market.

The Company also expended considerable effort on expanding the client base in the Wealth and Family Offices segments, in order to achieve greater penetration with these investors, who are essential for BESl Brasil's success in structuring and distributing CRIs (certificates of real estate receivables), CRAs (certificates of agribusiness receivables) and other structured products.



## CORPORATE FINANCE

The Corporate Finance area is responsible for structuring the Bank's M&A transactions. Making use of its extensive experience in the consumption, retail, food and infrastructure sectors, and operating in conjunction with the teams in New York and Mexico, the area accounted for 8.6% of the Bank's total revenue in 2013.

Although the number of Brazilian M&A transactions fell to 592 in 2013, the amount involved increased by 17% to US\$78.8 billion, according to Bloomberg.

In regard to the origin of the investments, Brazilian investors retained their lead due to the continuing predominance of domestic operations. However, it is worth noting that cross-border transactions accounted for 44% of the annual total. The year's most important operations are shown below:



Despite the reduction in the number of transactions, Brazil continued to head the Latin American M&A rankings, with 63% of total volume. The challenges facing the M&A market are likely to remain in 2014, given expectations of modest emerging market growth.



## STRUCTURED OPERATIONS

### PROJECT FINANCE

Throughout the Banco Espírito Santo Group as a whole, the Project Finance area has been consolidating its aim of uniting transaction origination efforts in order to support the expansion projects of Portuguese and Spanish companies in different countries. BES's own organizational structure is changing in order to ensure greater coordination between Portugal, Brazil and New York, optimizing teams and honing personal skills to ensure that the needs of clients in the most varied countries are met with expertise and a deep knowledge of the different financing realities.

Specifically in Brazil, project finance increased substantially in 2013, thanks to a series of auctions for highway, airport, wind power, energy transmission line, and water and sewage concessions, which should generate investments of R\$130 billion over the next five years. There was also a significant increase in federal, state and municipal government initiatives in regard to the structuring of public-private partnerships (PPPs), with a focus on infrastructure projects for hospitals, schools and prisons. BES Brasil played an active role in this movement in line with its strategic plan for the year.

There was an increase in the volume of onlendings from the Brazilian Development Bank (BNDES) with the approval of support for ViaBahia's highways (approved in 2012 with the first disbursements in 2013); Viracopos airport (disbursements throughout 2014), and ATTEND's waste treatment project (also with disbursements throughout 2014).

Similarly, project finance in Brazil further expanded its participation as a guarantee agent for the Studies and Projects Funding Agency (FINEP), which finances investments in technological research and development using long-term funds; and as a structuring agent for Project Bond transactions, capital market offerings for the financing of long-term projects, such as the issues for Concessionária Rodovias do Tietê, Interligação Elétrica Madeira and Santo Antônio Energia.

Supporting the Brazilian projects of Portuguese and Spanish companies is an integral part of BESI's global strategy, reinforced by commercial initiatives with local firms the provision of advisory services and financial structuring. Given its ability to ensure domestic currency funding, its local market know-how and its role as an onlending agent for different sources of long-term funding in Brazil, the Bank is fully prepared to assume the risks associated with long-term financing operations. Accordingly, BESI Brasil operates as a local player with a differentiated international structure. In 2014, despite the difficulties facing the Brazilian economy, expectations for this market are positive. The government's infrastructure improvement programs are still providing major development opportunities. The development sectors include those where bidding processes have not yet begun, such as railways and ports, and others with a large project portfolio, such as highways (with at least another five bids already announced by the federal government), power generation, with annual requirements of around 3,000 MW, and urban mobility, among others. These concessions will absorb total investments of around R\$100 billion in the years immediately following the concession, with annual needs of close to R\$120 billion over the next five years.



**Attend Ambiental**  
solução em resíduos líquidos

Assessoria, Estruturação Financeira e Concessão de Empréstimo Ponte

**R\$ 20 milhões**

Assessor e Financiador  
2013




**ENGEVIX**  
CONSTRUÇÕES OCEÂNICAS

**ECOVIX**

Estruturação de Empréstimo Ponte para Investimento no Estaleiro do Rio Grande

**R\$ 40 milhões**

Estruturador e Financiador  
2013




**Gamesa**

Fiança prestada para garantir as obrigações da Gamesa Eólica Brasil nos Projetos dos Parques Eólicos: Central Eólica Baixa do Feijão I, II, III e Central Eólica Baixa do Feijão IV

**R\$ 13,6 milhões**

Garantidor  
2013




**ie madeira**  
INTERLIGAÇÃO ELÉTRICA DO MADEIRA

Assessoria Financeira para Interligação Elétrica do Madeira na contratação de Empréstimo de Longo Prazo junto ao BNDES, FNO e Debentures Infraestrutura

**R\$ 2.467 milhões**

Assessor  
2013




**ie madeira**  
INTERLIGAÇÃO ELÉTRICA DO MADEIRA

Debêntures Infraestrutura

**R\$ 350 milhões**

Coordenador  
2013




**ViABAHIA**  
CONCESSIONÁRIA DE RODOVIAS

Financiamento via Repasse BNDES para Viabahia Concessionária de Rodovias

**R\$ 120 milhões**

Agente Repassador  
2013



Supporting the  
Brazilian projects  
of Portuguese  
and Spanish  
companies is  
an **integral**  
part of  
BESI's global  
strategy

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## OTHER CREDITS

In 2013, the strategy was to take a more active approach to clients with whom BESI Brasil already maintains credit or investment banking relations, in order to offer more structured funding alternatives, thereby consolidating the Bank as an active agent with a deep knowledge of the market, products and its clients' needs.

Accordingly, the Other Credits area in Brazil expanded the Bank's participation in syndicated loans and club deals, closing 144 structured operations with a total credit volume of R\$1.23 billion, averaging R\$8.5 million per transaction. The number of operations assessed, including invitations to participate in syndicated loans, exceeded 300. The Bank's structured foreign currency loans also increased with the support of BESI Brasil's Cayman subsidiary. This is an important and strategic activity for expanding relations with major groups in Latin America, whether Portuguese, Spanish or Brazilian.

The Other Credits area also deals with Acquisition Finance, a type of loan that is not widely used in Brazil as yet, whereby the financing of acquisitions is guaranteed by the future dividends of the acquired asset. The area's strategy in 2014 is to strengthen relations with the client base in order to promote cross-selling among the Bank's different activities as well as cross-border initiatives, thereby consolidate BESI Brasil as a structuring agent of choice.



|  |  |  |  |
|--|--|--|--|
| <br><b>R\$ 3.370.000</b><br>CCB<br>Estruturador<br>2013<br>        | <br><b>US\$ 20.000.000</b><br>Empréstimo Bilateral<br>Estruturador<br>2013<br> | <br><b>R\$ 10.000.000</b><br>NCE<br>Estruturador<br>2013<br>     | <br><b>R\$ 4.900.000</b><br>CCB<br>Estruturador<br>2013<br>      |
| <br><b>R\$ 15.000.000</b><br>CCB<br>Estruturador<br>2013<br>       | <br><b>R\$ 10.000.000</b><br>CCE<br>Estruturador<br>2013<br>                   | <br><b>R\$ 100.000.000</b><br>CCE<br>Estruturador<br>2013<br>    | <br><b>R\$ 20.236.590</b><br>NCE<br>Estruturador<br>2013<br>     |
| <br><b>R\$ 7.000.000</b><br>CCE<br>Estruturador<br>2013<br>    | <br><b>US\$ 5.000.000</b><br>NCE<br>Estruturador<br>2013<br>               | <br><b>US\$ 5.000.000</b><br>NCE<br>Estruturador<br>2013<br> | <br><b>R\$ 10.000.000</b><br>CCB<br>Estruturador<br>2013<br> |
| <br><b>US\$ 25.000.000</b><br>Loan<br>Estruturador<br>2013<br> | <br><b>R\$ 10.000.000</b><br>CCE<br>Estruturador<br>2013<br>               | <br><b>R\$ 10.000.000</b><br>NCE<br>Estruturador<br>2013<br> |  |

## **BROKERAGE – BES SECURITIES**

BES Securities operates as an Equity House, focusing entirely on institutional clients to take advantage of the best investment opportunities in the global stock markets. With approximately 90 analysts worldwide, in 2013 BES Securities' adopted a global strategy of targeting the emerging markets, including Brazil, despite the crisis.

The Brazilian stock market recorded a negative performance in 2013, with the Ibovespa Index dropping by 15.5% (28% in USD). Daily traded volume averaged R\$7.3 billion, slightly more than the R\$7.2 billion posted in 2012. In a scenario dominated by the increasing importance of high frequency trading and high concentration, with the 10 largest players retaining around 64% of the market, BES Securities do Brasil was ranked 23rd in the Bovespa's ranking.

In addition to cash equity brokerage, BES Securities do Brasil has gained market share in the other segments it operates in, being ranked 1st in the forward market, with a 12% share. It also substantially improved its position in the futures market, moving up from 22nd place, in 2012, to 19th, being ranked 1st in cattle futures and 3rd in commodities in general.

## **ASSET MANAGEMENT – BESAF**

The Brazilian fund industry was marked by two distinct tendencies in 2013. Average returns were jeopardized by the increase in the Brazilian market's instability due to the political uncertainties, and underperforming the CDI interbank rates, especially in the balanced/mixed segment. Nevertheless, despite the difficulties, the industry grew by 4.2%, with net sales, mainly from pension and fixed income funds, of R\$59 billion (the lowest figure since 2008) and assets under management of R\$2.4 trillion.

BESAF – BES Ativos Financeiros closed 2013 with assets under management of R\$845 million, 15% down on 2012, mainly due to redemptions by corporate clients who decided to change their treasury management policies.

New clients were obtained in the period and several agreements with new BESAF dealers were signed. The asset management area continued with its product diversification strategy, exemplified by the partnership entered into with ESV – Espírito Santo Venture Capital, which led to the creation of two new products: an investment fund for start-ups, one of whose strategic partners is Microsoft Ventures, and a fund to invest in the strategy and technology segment. These new products are being developed under the umbrella of the federal government's innovation and entrepreneurship incentive program.

At year-end, the regulatory agencies authorized the merger between BESAF and BES DTVM, a BESI initiative that should take place in 2014, designed to optimize operations, reduce costs and expand the product mix and market representativeness of BESI Brasil's asset and wealth management areas.

**INVESTIDOR INSTITUCIONAL**  
32º Top Asset

10 Assets mais focadas no Segmento de Fundos de Terceiros

4º Lugar

2013

ESPIRITO SANTO INVESTMENT BANK

**INVESTIDOR INSTITUCIONAL**  
32º Top Asset

10 Assets que mais cresceram no Cliente Corporate

4º Lugar

Jun 2012 a Jun/2013

ESPIRITO SANTO INVESTMENT BANK

**INVESTIDOR INSTITUCIONAL**  
32º Top Asset

10 Assets de Capital Estrangeiro

10º Lugar

2013

ESPIRITO SANTO INVESTMENT BANK

**INVESTIDOR INSTITUCIONAL**

BES FIM  
Crédito Privado

Categoria Excelente

2013

ESPIRITO SANTO INVESTMENT BANK

**STANDARD & POOR'S**

BES FIM  
Crédito Privado

★★★★★

2013

ESPIRITO SANTO INVESTMENT BANK

BESAF – BES Ativos Financeiros closed 2013 with **assets under management of R\$845 million**

## **WEALTH MANAGEMENT – BES DTVM**

According to the Brazilian Association of Financial and Capital Market Entities (ANBIMA), the domestic private banking industry recorded growth in 2013, with assets under management climbing by 9.47% to R\$577 billion. Although the Brazilian market was marked by certain difficulties on the social, political and economic fronts, the recovery in the final months of the year had a positive impact. BES DTVM's wealth management activities closed 2013 with 360 active clients and assets under management of R\$1.2 billion, in line with 2012.

Throughout the year, BES DTVM prioritized the management of capital hedge portfolios, benefiting portfolio performance. Performance of the balanced/mixed funds was adversely affected by the upturn in interest rates and the equity market behaved unfavorably due to prospects of negative corporate income growth. However, the strategy of focusing on shares not tied to the Bovespa Index generated positive nominal results for the equity portfolios despite the Bovespa's 15.5% decline. Access to products and transactions with associated tax benefits also generated a solid and growing profitability base which helped optimize performance.

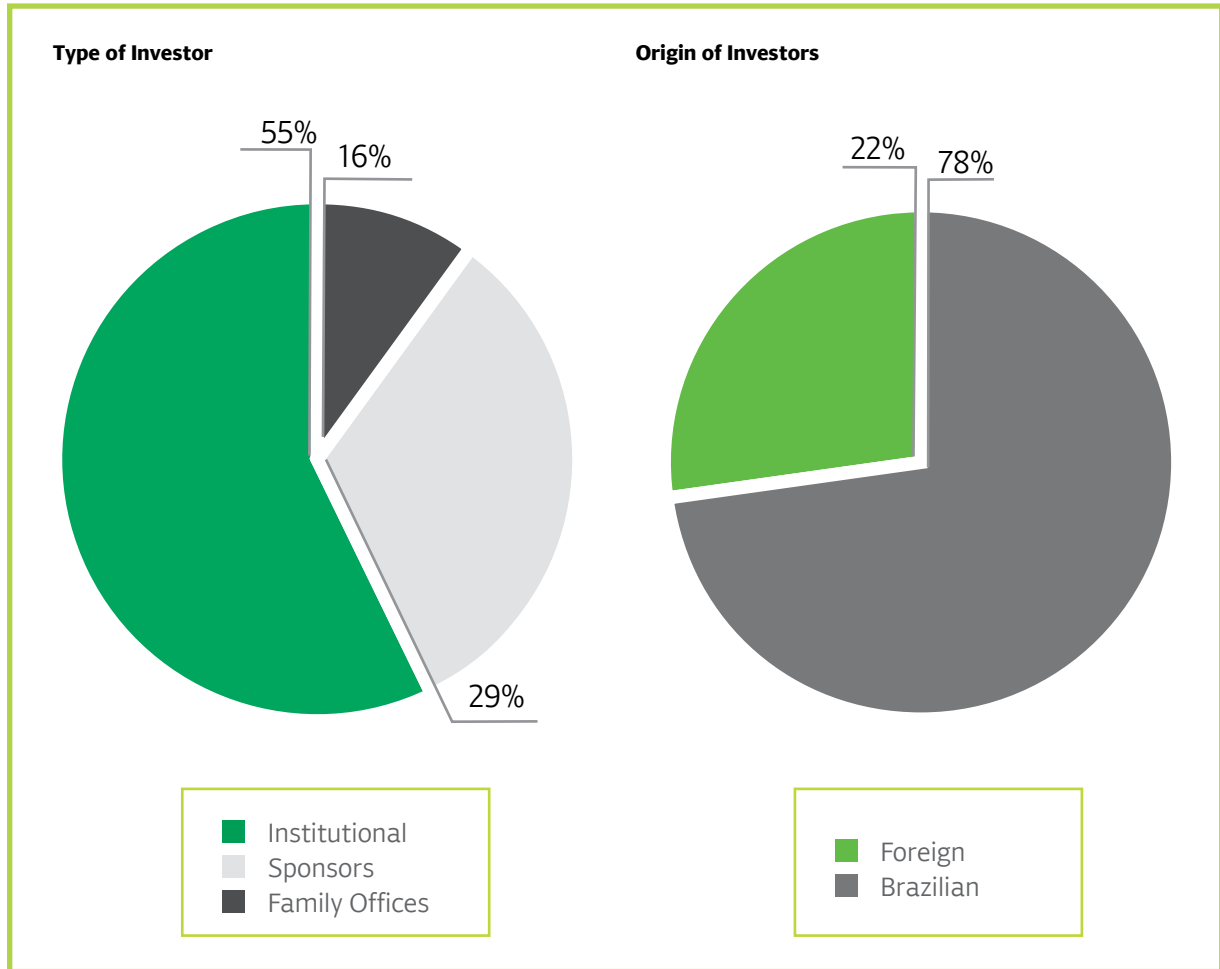
The atmosphere of uncertainty surrounding the domestic macroeconomic scenario should continue to govern market growth in 2014. The coincidence of the World Cup and the presidential elections means that 2014 is an exceptionally atypical year in Brazil and investments are likely to adopt a more defensive strategy, favoring greater risk diversification.

The integration of BESAF's assets and activities by BES DTVM is also scheduled for 2014.



## PRIVATE EQUITY – 2B CAPITAL

In 2013, 2bCapital concluded the building of its fund, which reached R\$405 million, 26% up on the first report. The final investor profile is shown below.



2bCapital worked on 49 transactions in 2013, one of which (Aramis) was effected at the beginning of 2014 and another is at an advanced stage, jointly accounting for one-third of the committed capital. The transactions analyzed in 2013 were divided among consumer goods (34%), services (34%), retail (18%) and others (14%).

'03

# Governance

## MANAGEMENT FRAMEWORK

Transparency, financial discipline, control of operational and internal risks, equitability, social responsibility and the alignment of interests between shareholders and management are an integral part of BESI Brasil's day-to-day activities. Its management framework is based on the expertise acquired in GBES's 145 years of operations in the Europe and is in line with best market practices.

Operational policy considers the objectives of the Company's various stakeholders and seeks to transform clients into long-term partners by offering exemplary products and services tailored to their specific needs, thereby creating value for the Bank's shareholders based on organic and sustainable growth where ethical behavior is at the heart of the entire business.

BESI Brasil's organization is engaged in the constant pursuit of improved governance practices, in accordance with the guidelines and oversight of the Board of Directors, which is responsible for defining and monitoring the Bank's strategies, as well as monitoring the internal control systems, especially those related to the crucial aspect of risk management, which is particularly important for a financial institution.

The Bank's corporate governance culture comprises a set of management tools, one of whose objectives is to ensure an image of solidity and reliability, in addition to increasing the institution's transparency in relation to the market.

As a result, its business has become increasingly sustainable through the adoption of consistent risk management, the opening of new business opportunities and a constant concern with confirming the Bank's reputation for solidity.

Based on best international practices and standards, BESI Brasil is permanently committed to improving its internal controls, exemplified by its substantial investments in technology upgrades and staff training. It is by following these guidelines that the Bank has achieved the success and recognition of its clients and other stakeholders, and it is by continuing to follow them that it will seek the perpetuity of its business and an increasingly representative position in the Brazilian banking sector.



ARTIST: Pedro Motta  
TITLE: Testemunho #4 (Witness #4), 2013  
TECHNIQUE: Photography. Printed in mineral pigment on cotton paper  
SIZE: 110 x 150 cm

## **INTEGRATED RISK MANAGEMENT**

Essential for the sustainable development of any financial institution, risk management aims to identify, evaluate, monitor and control all risk categories to which the institution is exposed. Its management involves an integrated set of controls and processes including credit, market, liquidity, and capital risks, in addition to operational risk, under the responsibility of the Compliance Department. BESI Brasil is constantly involved in mapping potential risks and adopting measures to mitigate them.

BESI Brasil's appropriate risk level is defined by the bank's Credit and Risk Committee (CCR), always in conjunction with BESI Portugal. Daily monitoring and control reports are drawn up in order to ensure adequate levels of solvency, liquidity and provisioning.

The Risk Control team operates independently from the other business areas, with complete autonomy to carry out its risk analysis, qualification, control and monitoring procedures, both in the institution as a whole and in the individual business units.

BESI Brasil follows the same methodology adopted by all the Group's units, with internal ratings attributed to client companies and operations, considering, in addition to performance aspects, the size, business sector and structure of the company and operation in question.

## **BASEL III**

The new rules imposed by the Basel III accord, which became valid as of October 2013, are designed to improve the capacity of financial institutions to absorb shocks and record sustainable growth. BESI Brasil already operates under Basel III and is comfortable with the new changes imposed by the regulation.

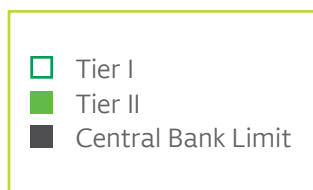
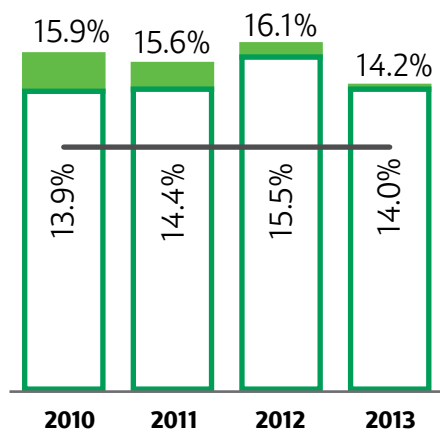
In regard to credit risk, BESI Brasil follows the rules established for the Simplified Standard Approach in the case of domestic accounts. This approach incorporated new elements into the methodology already in use, such as mitigating factors for credit risk that ensure the better adequacy of capital requirements to exposure characteristics, in addition to expanding their features, including in relation to off-balance sheet items.

The attribution of internal ratings to the client companies, in accordance with the methodology described in the following item, incorporates Head Office's capital allocation methodology, which follows the Internal Rating Based Approach (IRB) which is based on default probability parameters for the allocation of minimum capital requirements. The BES Group was the first Portuguese bank certified by the Bank of Portugal to use this methodology.

In relation to operational risk, the Bank uses the Basic Indicator method (BIA), which calculates minimum capital requirements considering average revenue in all business lines for a three-year period, with a Beta factor of 15%. In order to monitor and control market risk, the Bank has widened its directives to include hitherto unconsidered exposures.

At the end of 2013, BESI Brasil's Basel Index was 14.0% for Tier I capital and 14.2% for Tier II capital, indicating comfortable levels in relation to the Brazilian Central Bank's stipulated minimum of 11% and reflecting the upturn in activity and growth of the Bank's assets.

## Basel Ratio



The analysis, approval, solicitation and establishment of limits in all operations involving credit and counterparty risk are in the domain of the Credit and Risk Committee (CCR) with the participation of the Board of Executive Officers and the Credit Department.

Within this scope, the purpose of the Risk Control team is to measure, monitor and continually control in an integrated manner the positions and exposures in relation to the pre-approved limits, involving all the operations carried out and risk factors incurred by BESI Brasil. All operations are subject to analysis, independently of whether they are classified in the trading portfolio or not. The tolerance limits associated with risk exposures and portfolio positions are defined and formalized by specific committees.

BESI Brasil's credit risk profile is regularly monitored in regard to credit exposure, the monitoring of eventual related losses and the renegotiation of these operations. Compliance with the approved credit limits and the suitability of the credit approval mechanisms are also subjected to daily analysis. In addition, the profile of the loan portfolio is monitored by several evaluation instruments that measure exposure by client/economic group, product, rating, economic sector, maturity and guarantees.

The Bank's credit risk has evolved as loan operations and guarantees have gained importance in BESI Brasil's activities. In December 2013, these operations accounted for 63.7% of the Bank's total credit risk.

## CREDIT RISK

Credit risk is associated with potential financial losses arising from the direct or indirect failure of a borrower or counterparty to honor its contractual obligations with the Bank. In addition to financial assets, exposures to derivatives, guarantees, co-obligations and similar are also taken into consideration. When the borrower is located abroad, the country's default risk is also factored in.

The methodology used to define the internal credit rating by the entire BES Group, including BESI Brasil, was developed by Standard&Poor's Risk Solution and considers the individual characteristics of each client (sector and activity) taken to its maximum consolidation level within a given economic group, as well as the financial operation in question. All ratings attributed by the local credit department are ratified in a joint Rating Committee with BESI Portugal's Credit Department.

In the case of certain structured transactions – project finance, acquisition finance and commodity finance, in addition to those with specific standards – internal ratings are attributed by a specific BES Group team in Lisbon, in line with the specific features of each product.

## MARKET RISK

Market risk represents possible losses arising from variations in interest rates, mismatches of maturities, exchange rates, and the indexing units of asset and liability portfolios. At BESI Brasil, the Risk Control team identifies, evaluates, monitors and controls market risk on an ongoing basis. The resulting reports are assessed by the Bank's Executive Board and the risk control area in Lisbon, which also conducts daily meetings before the market opens.

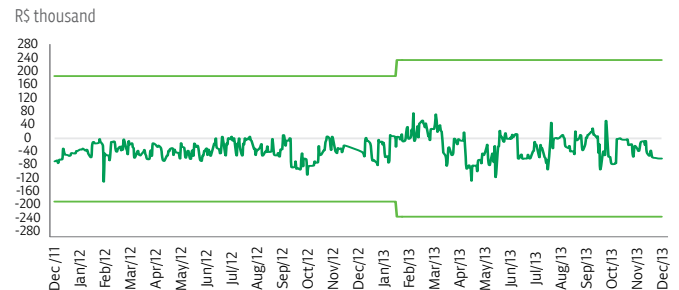
Proposed risk limits are based on the analysis of relevant risk factors, market volatility, growth projections for the activity in question and adequate risk/return assumptions in accordance with the standards adopted by the Bank. Simulations of normal and adverse market situations are conducted and position limits are defined by specific risk factor, stop losses and concentration. The objective is to present a broad picture and provide enough information for senior management to decide on the most appropriate limits for the moment, and for Bank policy and strategy.

These proposals are prepared at least once a year, discussed with the risk control area in Lisbon and analyzed by the local Credit and Risk Committee (CCR) for subsequent submission to the Global Credit and Risk Committee in Lisbon.

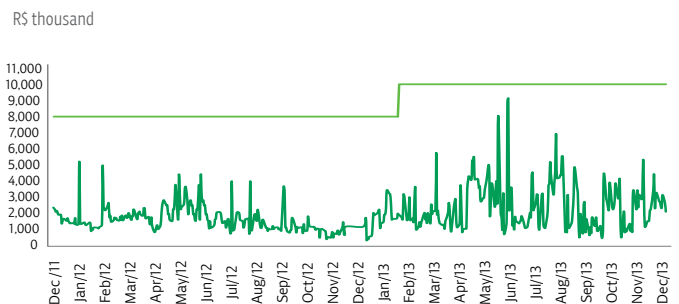
Market risks are managed through the daily monitoring of exposure levels in relation to the pre-established limits, both for BESI Brasil's domestic portfolio and the portfolio of the Cayman subsidiary.

Given the variation in the Bank's portfolio (P&L: Profit and Loss) between January and December 2013, the evaluations confirmed that the limits in place were more than sufficient for the VaR and the reported result, indicating adherence to the model, with eventual extrapolations remaining within the envisaged limits.

### Exposure V01



### Parametric VaR



For legal reasons, different reports are prepared, such as:

- **DDR** – Daily Risk Report, to be presented to the regulatory agency, on a daily basis and in summarized format, containing all the market risk information by portion of RWA (Risk Weighted Asset);
- **DRM** - Market Risk Report, which presents information concerning exposure to the market risk factors mapped in the categories defined by the Regulatory Agency; and
- **DLO** - Operational Limits Report, which contains the minimum reserve requirements.

## LIQUIDITY RISK

Liquidity risk arises from a financial institution's inability to make funding available to settle its day-to-day obligations or to cover fluctuations in the value of its assets to take advantage of significant market opportunities.

The purpose of liquidity management is to quantify this risk and establish the level of tolerance to it, not just to eliminate it per se.

Funding liquidity risk includes:

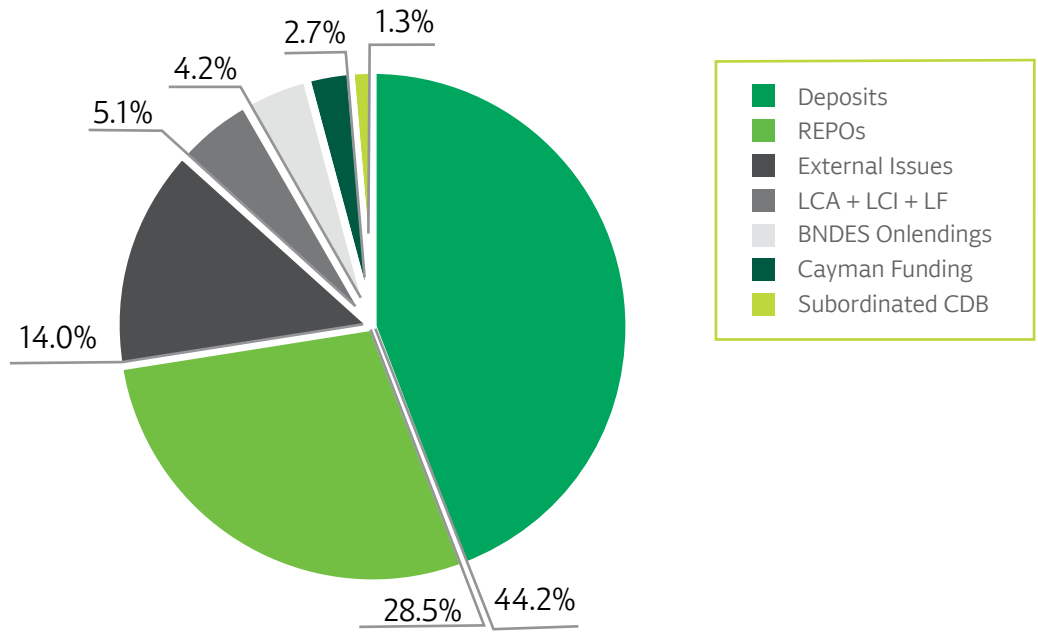
- Business risks – arising from daily funding and trading activities under normal market conditions, more specifically from liquidity gaps, funding concentration and off balance sheet items; and
- Contingent risks – arising from external factors over which the institution has no control, such as market volatility, political events and other specific market aspects.

In order to control and evaluate liquidity risk exposure, BESI Brasil makes use of reports based on liquidity gaps, considering and analyzing the detailed position of the assets and liabilities from the entire funding portfolio and investments by currency, maturities and yield/cost.

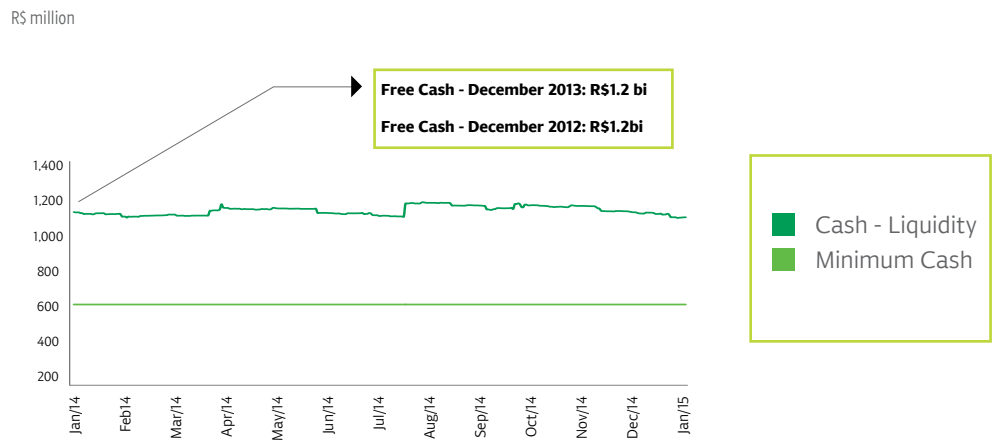
The Bank also prepares daily cash flow reports considering the flow of financial transaction maturities, expenses cash flow, portfolio payment delays and liability planning at least 90 calendar days ahead.

Local liquidity risks are discussed in periodic meetings between members of the Executive Boards of BESI Brasil and BESI Portugal via the Liquidity and Allocation Committee, which is part of the Bank's liquidity management framework. Asset allocation strategies are defined considering funding sources in the short, medium and long term and the implicit interest rate risk of the operations in question. In addition, limits for risk management and minimum cash reserves are established; control parameters for the distribution of the funding portfolio are fixed; and liquidity contingency action plans are prepared.

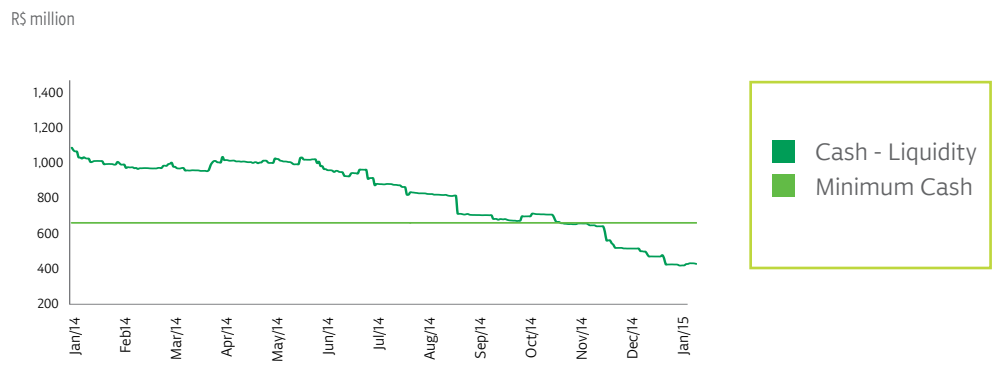
**Funding Breakdown in December 2013**



**Control of Liquidity Res. 4090: Standard Scenario**



**Control of Liquidity Res. 4090: Stress Scenario**





BESI Brasil's  
appropriate risk  
level is defined  
by the bank's  
Credit and Risk  
Committee (CCR),  
always in  
conjunction  
with BESI  
Portugal

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## CAPITAL RISK

BESI Brasil's capital management is a continuous process that involves monitoring and controlling the institution's capital, assessing the capital needed to meet the risks it is exposed to, and planning capital targets and needs in regard to fulfilling its strategic objectives. The work has a prospective approach, always seeking to anticipating eventual changes in market conditions.

In order to monitor capital risk and provide input for senior management decisions, the risk management area prepares:

- the identification and evaluation of significant risks incurred by BESI Brasil;
- capital management policies and strategies, duly documented, in order to establish mechanisms and procedures;
- the Capital Plan, with a minimum three-year term and reviewed annually, through simulations of severe events under extreme market conditions (stress testing); and
- weekly management reports on the Bank's capital adequacy.

In line with the new Basel III standards, BESI Brasil has also been monitoring its future capital needs and considering scenarios that require the Bank's capital contingency plan to be put into action.

## OPERATIONAL RISK

The existence of operational risk management structures in all Brazilian financial institutions is determined by the Central Bank. Possible operational risk events include: internal and external fraud; labor disputes and insufficient workplace safety; inappropriate practices related to clients, products and services; damage to physical assets owned or used by the institution; events that cause interruptions in the institution's activities; failures in IT systems; non-compliance with deadlines; and problems managing the institution's activities.

BESI Brasil follows a daily series of processes and procedures to manage the operational risk associated with its business, in accordance with institutional policy. It also has a contingency plan that is monitored on an ongoing basis in order to ensure the continuity of its activities and limit severe losses. Consequently, these risks are identified, evaluated, controlled and mitigated.

BESI Brasil's Board of Directors and Executive Board closely monitor this control through reports prepared by the areas responsible, which also identify deficiencies and take timely corrective action. The area in question is also responsible for disseminating the Operational Risk Management Policy within the company and making all employees aware of the importance of their individual roles in identifying and minimizing these risks.

In order to help monitor internal controls, the institution has developed a system that contains a description of all employees' internal activities, by competence and remit, and which automatically sends an alert to the employee in question and to the Compliance Department / Operational Risk Management Department, recording whether the operation has been executed or not. The employee's manager and responsible executive officer are immediately informed in cases of non-execution. Depending on the justification presented, they may be the subject of analysis by the Compliance Department, which will take the appropriate administrative measures and/or correct the problem.



BESI Brasil's Board of Directors is responsible for approving the Operational Risk Management Policy, which describes the area's internal structure, activities and methodology for risk mitigation, eventual failures and corrective measures.

In order to monitor activities, semi-annual reports are submitted to the Board of Directors indicating all eventual failures, as well as the corrective and preventive measures taken to mitigate the risks identified. Whenever a medium or high-risk failure occurs, additional reports may be submitted to the responsible executive officer, with copies to all members of the Executive Board.

The culture of rigid internal controls is disseminated among employees as part of their daily activities. All employees are aware of their responsibilities in regard to monitoring the operational risks of the institutions and non-financial companies making up the BESI Brasil Group. They are also encouraged to report doubts, risk situations or suggestions for improving internal procedures to their managers, thereby contributing to the efficiency of the adopted model in terms of the identification, monitoring and mitigation of operational risks.

 The culture of rigid internal controls is disseminated among employees as part of their daily activities



## BOARD OF DIRECTORS

BESI Brasil's Board of Directors is elected every two years by the Annual Shareholders' Meeting and meets every three months, or extraordinarily whenever necessary. It is responsible for the overall direction of the business and for decisions related to the policies and guidelines that the institution should follow, in addition to verifying and monitoring if these decisions are being complied with. The Board of Directors also elects and removes the executive officers and oversees their activities.

### CHAIRMAN

**José Maria Espírito Santo Silva Ricciardi**

### MEMBERS

**Ricardo Abecassis Espírito Santo Silva**

**Francisco Ravara Cary**

**Frederico dos Reis de Arrochela Alegria**

**Moses Dodo**

**Rafael Caldeira de Castel-Branco Valverde**

**Tiago Vaz Pinto Cyrne de Castro**

### INTERNAL AUDITOR

**Andrea Chen Sales Henckes**

## EXECUTIVE BOARD

BESI Brasil's Executive Board is responsible for the day-to-day management of the institution, implementing the operational policies and guidelines established by the Board of Directors.

**Ricardo Abecassis Espírito Santo Silva** | CEO

**Alan Fernandes** | Project Finance Officer

**Carlos Guzzo** | Risk, Credit and Management Control Officer

**Miguel Antonio von Rechberg Lins** | Commercial Officer

**Miguel Guiomar** | Capital Markets Officer

**Maria Luiza Baroni** | Corporate Finance Officer

**Mércia Bruno** | Legal and Compliance Officer

**Roberto Simões** | Treasury Officer

## SUBSIDIARIES

BES *Securities* do Brasil S.A. CCVM

**Rui Miguel Marques** | Officer

**Mércia Bruno** | Officer

BESAF – BES Ativos Financeiros Ltda.

**Paulo Werneck** | Officer

**Mércia Bruno** | Officer

ESPÍRITO SANTO SERVIÇOS FINANCEIROS  
DTVM S.A.

**Domingos Espírito Santo P. Coutinho** | Officer

**José Carlos Mendes** | Officer

**Carlos Guzzo** | Officer

2BCAPITAL S.A.

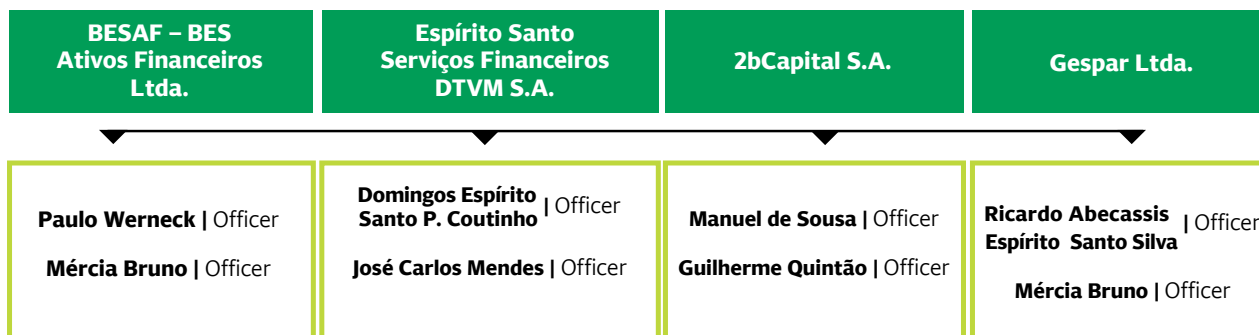
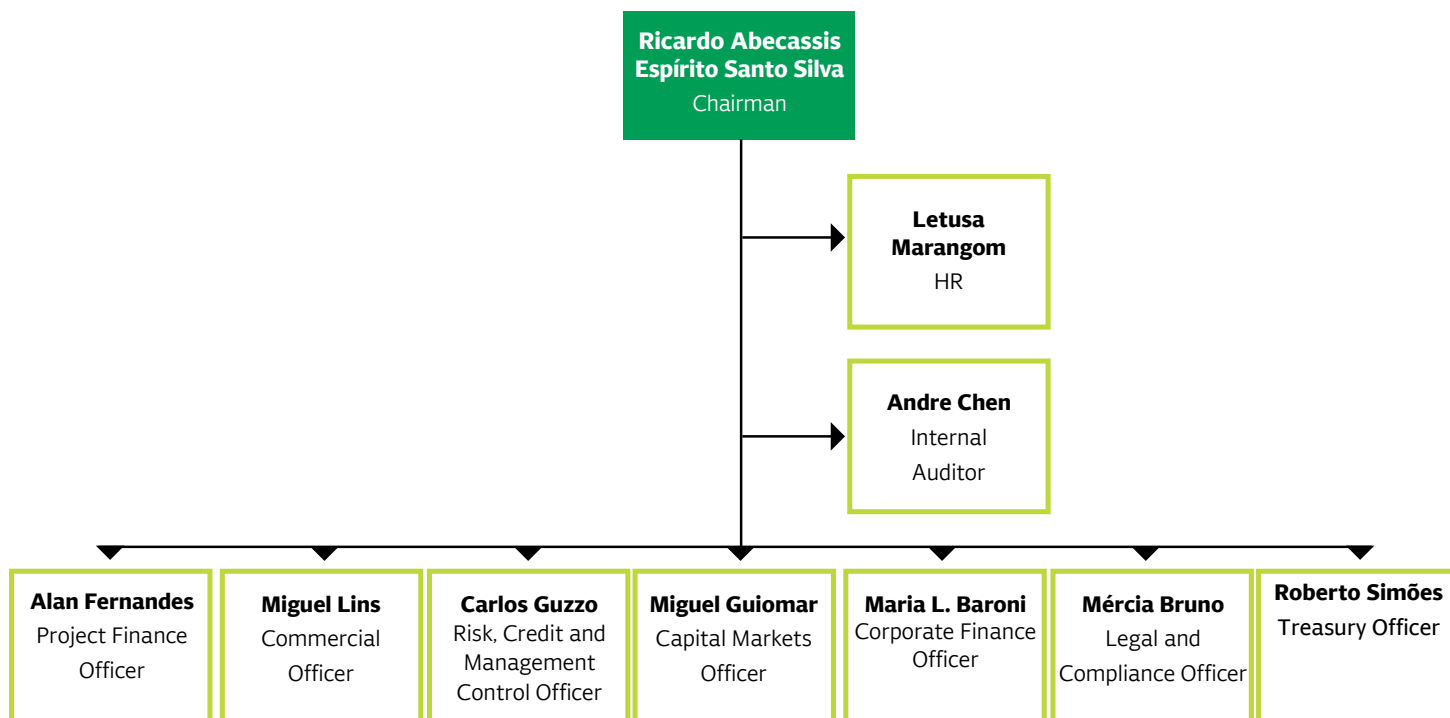
**Manuel de Sousa** | Officer

**Guilherme Quintão** | Officer

GESPAR LTDA.

**Ricardo Abecassis Espírito Santo Silva** | Officer

**Mércia Bruno** | Officer



'04

# Intangible Assets

## MANAGEMENT OF INTANGIBLE ASSETS

Thanks to its tradition and experience in the financial market, the Banco Espírito Santo Group is internationally renowned as a serious, solid and ethical institution. The value behind the Espírito Santo name is its international prestige and recognition, an intangible asset that adds substantial value to BESI Brasil's operations, which mainly focus on providing its clients with the best possible service, based on understanding and partnerships, in order to contribute to their success and growth.

The Bank's management model is based on a unique approach, through which it offers expertise and advisory

services, rather than just selling financial products, in order to establish long-term relationships based on trust. These principles underpin the institution's relations with all its internal (including employees) and external stakeholders.

For BESI Brasil, ethics, transparency and a positive working environment, in which employees' efforts and dedication are recognized, play a crucial role in the solid growth of the business. Management is proud of this culture and constantly seeks to maintain and disseminate it, as it contributes to client and employee satisfaction and adds value to the institution, ensuring positive results for its shareholders.

BESI Brasil's values, culture and market recognition are intangible assets and go well beyond financial transactions per se. All this translates into the Banco Espírito Santo Group's brand, one of the most traditional in the Portuguese and global banking market, present in 23 countries and 4 continents. This brand incorporates the history and human capital that make GBES' operations synonymous with solidity and credibility.

The main intangible values incorporated into the management model are:

- Ethics;
- Appreciation of human capital;
- Partnership and commitment to clients;
- Professionalism, knowledge and experience;
- Transparency in all relationships;
- Commitment to risk management;
- Social and environmental responsibility.



ARTIST: Thiago Rocha Pitta  
TITLE: Herança (Inheritance), 2012  
TECHNIQUE: Photography  
SIZE: 100 x 150 cm

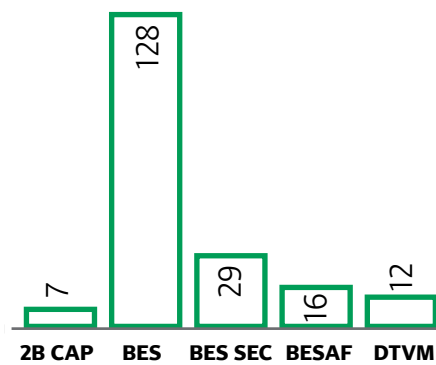
## HUMAN RESOURCES

### MAIN INDICATORS

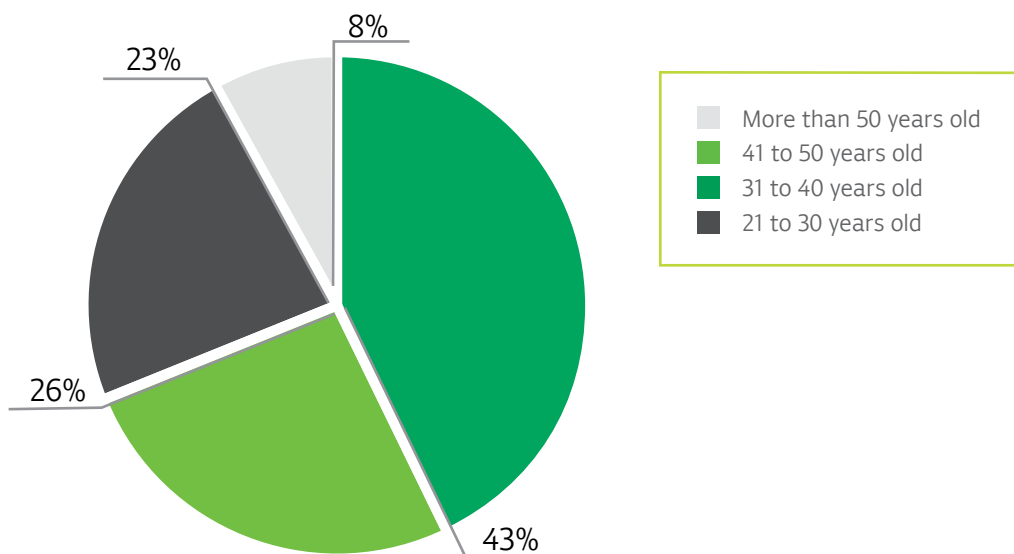
The Human Resources Department monitors its management indicators on a monthly basis in order to operate in a proactive and transparent manner in relation to employees and their needs, in line with the Bank's goals.

BESI Brasil and closed 2013 with 192 employees in its investment bank and subsidiaries, distributed as follows:

#### Total Employees

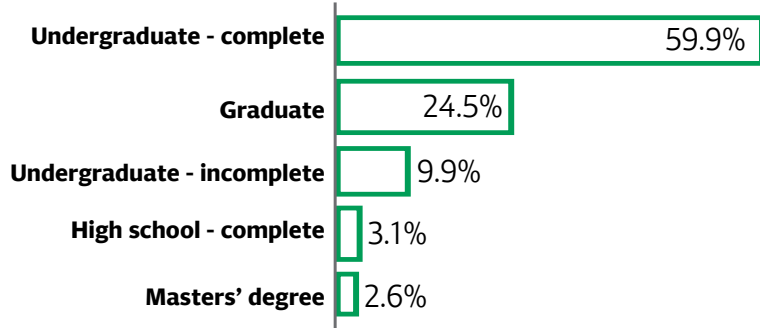


#### Employees by Age Group

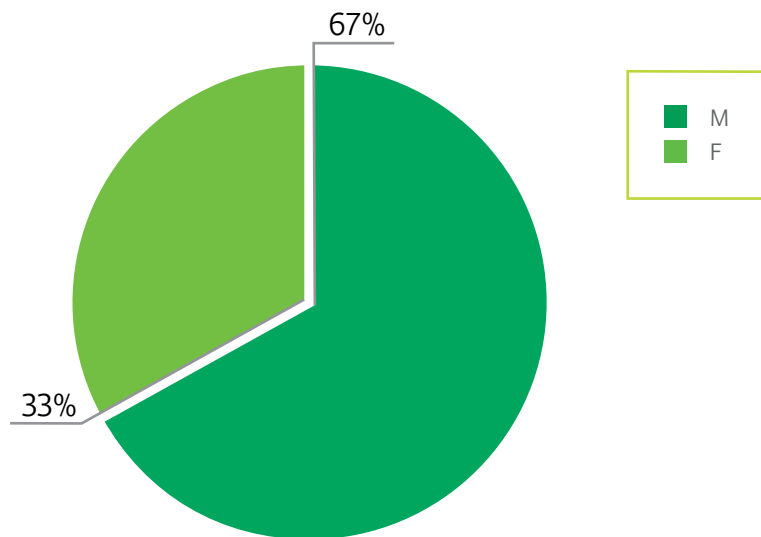




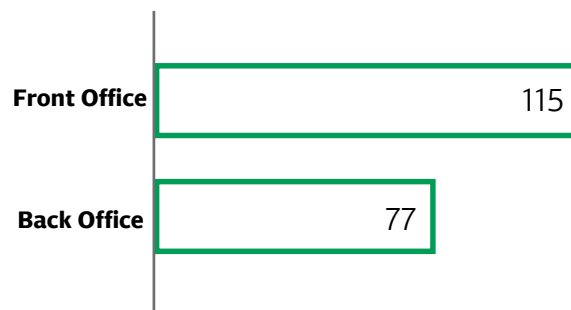
### Employees by Educational Level



### Employees by Gender



### Employees by Operational Area



## TRAINING AND DEVELOPMENT

In 2013, BESI Brasil conducted 12 training programs/courses for all job levels, with 336 participations, as follows:

| Courses / Training Programs                                 | Participants |
|---|--------------|
| IT Good Practices   | 6            |
| Etiquette Coaching  | 7            |
| CRK   | 11           |
| School of Agribusiness Futures - BMF Bovespa                | 1            |
| Corporate Etiquette   | 64           |
| CCNA Exploration 4.0  | 1            |
| Effective Leadership  | 17           |
| Maintaining a Microsoft Sql Server 2008 Database (by Bfbiz) | 1            |
| Information Security  | 206          |
| CPA20 Anbima Professional Certification Training / Mock     | 19           |
| CFP Training  | 2            |
| Valuation - APIMEC  | 1            |
|   | <b>336</b>   |

## SUPPORT AND SUBSIDIES

Valuing and investing in human capital is essential for the sustainable development of any institution. BESI Brasil believes in the potential of all its employees, so in addition to offering job-specific training, it subsidizes their post-graduate studies and language courses.

In 2013, it supported five employees in post-graduate programs and 32 employees studying languages, divided as follows:

### Graduate programs:

| Area                                    | Employees |
|---|-----------|
| Client Coverage, Communications & Image | 1         |
| CEO's Office, HR, Audit and Back Office | 1         |
| Treasury                                | 3         |
|   | <b>5</b>  |

## Languages:

| Area   |           |
|--|-----------|
| Administrative, Legal, Registration and Compliance                   | 2         |
| Client Coverage, Communications & Image                              | 2         |
| Accounting, Planning, Control and Risk Management                    | 4         |
| Corporate Finance  | 3         |
| Broker, Equity Research  | 2         |
| Third-party Management - (DTVM& BESAF)                               | 5         |
| Capital Market   | 2         |
| CEO's Office, HR, Audit and Back Office                              | 2         |
| Private Equity   | 2         |
| Project Finance, Other Credit, Acquisition Finance, IT and Telephony | 6         |
| Treasury   | 2         |
|  | <b>32</b> |

## HEALTH AND QUALITY OF LIFE

### BESI HEALTH WEEK 2013

In 2013, BESI Brasil's Human Resources Department, together with the HR consulting firm MDS, implemented a quality of life program designed to monitor employees' health. The program consisted of a week of evaluations by an MDS doctor and the filling out of a standard questionnaire on their medical history. At the end of the process, all employees received an assessment of their health risks and advice on each aspect. An overall evaluation of the workforce was sent to the HR Department, so that it can implement quality of life measures and programs in accordance with the employees' job profile

### INTEGRATION PROGRAMS

At the beginning of 2013, the HR Department identified the need for greater integration and launched a series of initiatives to promote this integration. Successful initiatives in 2013 included the breakfast offered by the bank to all employees every day at its headquarters in São Paulo. Children's Day, when all employees' children were invited to take part in games and activities at the Bank, and the Christmas party.

### ORGANIZATIONAL CLIMATE

Following a three-year gap, the Human Resources Department, under new management as of 2013, conducted an Organizational Climate Survey. With the participation of 91.06% of active employees, an adherence ratio which Management considered exceptional, 15 criteria were assessed through 93 direct and four complementary questions. Participants chose one of the following options for each statement: "totally disagree", "totally agree", "partially agree", "partially disagree", and "don't know".

The main indicators arising from the survey showed a significant increase in across-the-board satisfaction levels from 56.25%, in the previous survey, to 77.71%. The ranking of the best-assessed groups remained the same as in the last survey: commitment, leadership and processes. Under the same criterion, dissatisfaction fell from 25.66% to 16.91%.

'05

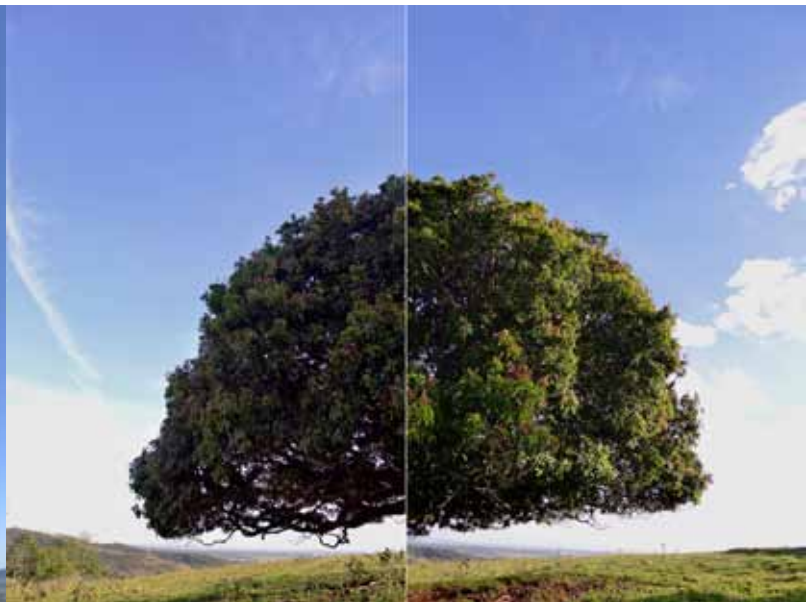
# Social and Environmental Responsibility

## **SUSTAINABILITY AND MANAGEMENT**

At BESI Brasil, sustainability translates into the constant pursuit of long-lasting and solid development in its day-to-day operations, inspired by GBES's 145 years of experience in Portugal. At BESI Brasil, sustainability means growing in a responsible and conscientious manner, evaluating risks and using them as the starting point for the creation of solutions that add value to the business, always focusing on the growth and perpetuity of its clients' operations. In other words, it operates as a partner and advisor of its clients. Sustainability also means fully supporting the development of the company's human capital and taking care of its surrounding communities. In addition to offering its employees continuous training and development opportunities, BESI Brasil supports various social and environmental responsibility projects and manages its own artistic and cultural projects.



ARTIST: Ana Nitzan  
TITLE: #60, platanus acerifolia, platano, siconio, 2013  
TECHNIQUE: Photomontage on cotton paper  
SIZE: 140 x 177x 12cm



ARTIST: Ana Nitzan  
TITLE: #69, mangueira espada, 2013  
TECHNIQUE: Photomontage on cotton paper  
SIZE: 140 X 177 X 12 cm

## PROGRAMS

### SOCIAL

#### CANTORES DO BEM (GOOD SINGERS) PROJECT

Developed by the Aquarela Association, a non-profit organization that has been promoting the social development of the Nova Jaguará community in São Paulo since 1996, the *Cantores do Bem* Project, now in its 9th edition, is an initiative that unites friends, businessmen and opinion-makers in a musical show where amateur singers raise their voice in support of the Aquarela Association.

*Cantores do Bem* is the organization's main event and was responsible for 36% of its annual revenue in 2012. It was even more successful in 2013, when it sold out in just three days, performed before an audience of 606 and generating revenue of R\$270,000, more than last year. BESI Brasil began supporting the project in 2013.



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#### REHABILITATION PROJECT

The Rehabilitation Project is an initiative of the Cruz Verde Association, a non-profit charity that has been providing specialized assistance to children suffering from severe cerebral palsy at the Day Hospital and Clinic since 1958 through a multidisciplinary team of professionals specialized in child care in the following areas: speech therapy, physiotherapy, hydrotherapy, occupational therapy, psychology, dentistry, social work, neuropsychiatry, nutrition and nursing.



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#### SUPPORT FOR THE ELDERLY PROJECT

The Support for the Elderly Project is an initiative of the Barretos Cancer Hospital. Founded in the 1960's, the hospital's main aim is to promote health by providing qualified humanized hospital care for Brazilian National Health System cancer patients nationwide, supported by prevention, teaching and research programs. The Project is designed to maintain, upgrade and fund growth in the services the hospital provides to the elderly, enabling it to cover its monthly deficit and absorb growing demand for its services with quality. It also provides funds for the Oncology Department to acquire drugs for the exclusive use of the elderly in order to improve their quality of life and hopefully trigger a recovery. BESI Brasil supports the Charity Bingo project, which is part of the overall Support for the Elderly Project.



## JOINT ACTION AGAINST CHILD CANCER

This is an initiative of the Child Cancer Treatment Institute (ITACI), in association with the Children's Foundation and the São Paulo Oncology Center Foundation. BESI Brasil was one of the main partners of the 2013 Charity Bingo project held by the Children's Foundation in support of the ITACI to partially fund the construction of the Hematopoietic Stem Cell Transplantation Center. The ITACI serves 3200 patients with onco-hematological diseases every month through a multidisciplinary team which includes psychologists, social workers, occupational therapists, physiotherapists, nutritionists, pharmacists, nurses and nursing assistants.



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## FAZENDO ARTE (MAKING ART) PROJECT

This project, organized by *Liga Solidária* (Solidarity League) and supported by BESI Brasil, serves 480 socially vulnerable children and teenagers at risk in the Raposo Tavares district of São Paulo. Through chats, workshops and activities related to culture, sports, nutritional education, IT, drama, dance and music, the project contributes to the full-time education of children and teenagers, helping them become responsible citizens. *Liga Solidária* has been a partner of BESI for almost 12 years. It is a non-profit organization founded in 1923 that develops citizenship and socio-educational programs that benefit more than 10,000 children, teenagers and adults.



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## WORK AND CITIZENSHIP PROGRAM

This program is part of *Reciclar* - Teenagers' Recycling Institute, founded in 1995 with the mission of providing vulnerable teenagers in situations of social risk with opportunities for education and vocational training in order to promote their self-esteem, social inclusion and engagement as citizens. The project, which began with 12 youngsters and now serves more than 130, has received the *Bem Eficiente* Award for its outstanding operations among Brazilian NGOs and has been nominated to the Business Guide to Partnering with NGOs and the United Nations by the United Nations Global Compact. The project directly benefits 16-to-19 year-olds who live in underprivileged communities in the west side of São Paulo and has been supported by BESI Brasil since 2010.



### DE OLHO NO FUTURO (WITH AN EYE ON THE FUTURE) PROJECT

This project is an initiative of the *Vida Jovem* (Young Life) Association – a non-profit charity that helps hundreds of youngsters transform their lives through education. The project trains socially vulnerable 14-to-17 year-olds in computer maintenance, administration (with an emphasis on tourism and hospitality) and web design so that they are equipped for the future job market. BESI Brasil has supported the *Vida Jovem* Association since 2010, when it expanded its activities as a shelter to offering free vocational training in order to prevent an increase in family breakdown.



### FAMÍLIA PARTICIPAÇÃO CIDADÃ (CITIZEN FAMILY PARTICIPATION) PROJECT

This project is an initiative of the non-profit *Ação Comunitária* (Community Action) organization, which promotes dialogue and the flow of experience between professionals and the families of the 4,000 children and teenagers served by the project. Its goal is to strengthen relations between the families, all of whom are socially vulnerable, and 26 social organizations in the south side of São Paulo. The project encourages family members to become involved with the organizations that serve their children, integrating them into art and leisure activities and creating opportunities for them to interact with educators, sharing experiences and information. For *Ação Comunitária*, education is an instrument of citizenship and the gateway to knowledge. This is only feasible thanks to strategic partnerships, such as that with BESI Brasil, which has supported the project since 2010.



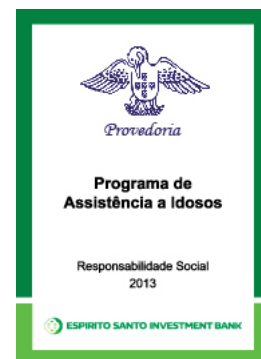
### OBRA DO BERÇO CHARITY BINGO PROJECT

*Obra do Berço* is a non-profit association founded in 1938 that serves approximately 5,000 children, teenagers, young adults and families at social risk in three units in the south side of São Paulo. The Charity Bingo Project is a fund-raising event organized by volunteers, which has received an Innovative Fund-Raising Idea award from the Ashoka Society. In 2013, the event united 600 guests and 226 sponsors, supporters and prize donors, and raised R\$603,800.00.



### LAR DA PROVIDORIA

Founded in 1968 by a group of Portuguese citizens on the initiative of the Portuguese Consulate in São Paulo, the *Providoria* of the Portuguese Community in São Paulo is a charity institution that assists underprivileged elderly people by giving them a home. At the end of 2013, 45 senior citizens, 29 of whom Portuguese and 16 Brazilian, were living at *Lar da Providoria*. BESI Brasil has been supporting the institution for eleven years.





## ENVIRONMENTAL

### PARTICIPATE AND RECYCLE PROJECT

This project implements and executes solutions for collecting, transferring, reprocessing and recycling technological waste. Each type of material is sent to a reprocessing unit, depending on its type and composition, subsequently moving on to its final certified destination.

By joining the project, BESI Brasil has received collection points and access to all the logistics for removing materials and forwarding them to the appropriate recycling process.



## SPORTS

### ABRAHAM'S PATH INITIATIVE

Abraham's Path is an international project created by intellectuals, entrepreneurs and religious leaders to promote social stability and economic development through sustainable tourism, culture and sports. Its initiatives in Brazil include the multi-cultural sporting event *Caminho da Paz*, a thematic street race that symbolizes São Paulo's diversity and the integration of its immigrant communities. In 2013, the event was attended by approximately 5,500 athletes, with the participation of a team of 90 BESI Brasil employees and clients. The partnership between BESI Brasil and Abraham's Path began in 2011.



### SUPPORT FOR THE PINHEIROS SPORTS CLUB FENCING TEAM

BESI Brasil supports the fencing category of the Pinheiros Sports Club's Terrestres II Olympic Project, through the Sports Incentive Law. The Project is designed to offer the best possible training conditions to 150 triathlon, fencing, gymnastics, judo, weight-lifting and track and field athletes, enabling them to participate in the main national and international competitions so that as many of them as possible qualify for the World Championships in 2013 and 2015, the 2015 Pan-American Games and the 2016 Olympics in Rio de Janeiro. In 2013, the Pinheiros Sports Club's fencing team participated in more than 40 national and international foil, épée and sabre competitions in the children's, juvenile, junior, free and wheelchair categories, both individually and as a team, winning 17 team titles. The individual highlights were Renzo Agresta – gold medal in the free category of the Pan-American Games, Taís Roche – gold medal in the free category of the South American Championship, Naria Sathiyo – silver medal in the juvenile category of the South American Championship and Rafael Melaragno – bronze medal in the juvenile category of the Pan-American Games.



## CULTURAL

### BESPHOTO

BESPhoto is a Banco Espírito Santo initiative launched in 2004 in association with Lisbon's Berardo Collection Museum in order to reward Portuguese artists or artists living in Portugal working with photography. The initiative begins with a joint exhibition of the artists previously chosen by the Selection Panel and culminates with the granting of the BESPhoto Award to the winning artist, selected by the Award Panel. Since 2011, BESPhoto, Portugal's most important contemporary arts award, has expanded its selection criteria to include artists from Portugal, Brazil and Portuguese-speaking African countries. In 2013, BESI, the Berardo Museum and the Tomie Ohtake Institute in São Paulo joined forces to promote the creativity of contemporary Portuguese-speaking artists and integrate them into the international art scenario, in order to create the most important contemporary arts award in the South Atlantic region.

In 2013, the exhibition included photographs by Albano Silva Pereira (Lisbon, 2011), Filipe Branquinho (Maputo, 2011), Pedro Motta (Brazil, 2012) and Sofia Borges (Brazil, 2012), selected by a panel composed of Bisi Silva, Director of the Lagos Contemporary Art Center, Delfim Sardo, an independent curator from Lisbon, and Agnaldo Farias, curator of the Tomie Ohtake Institute. The Award Panel, comprising English writer Geoff Dyer, U.S. professor Luc Sante and Spanish critic Rosa Olivares unanimously elected Pedro Motta, from Minas Gerais, the 2013 winner.



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### ESPÍRITO SANTO INVESTMENT BANK ART AWARD

In 2013, BESI Brasil granted the Espírito Santo Investment Bank Art Award for Brazilian works in the SP-Arte International Arts Fair, the largest art gallery fair in Brazil. The selection takes place at the opening of the event and is conducted by Ricardo Espírito Santo, CEO of BESI Brasil, Marcelo Secaf, former Chairman of the Board of Directors of the São Paulo State Pinacoteca Art Museum, and Ivo Mesquita, Technical Director of the Pinacoteca. The selected works are acquired for BESI Brasil's collection or donated to cultural institutions, such as the Pinacoteca. In 2013, the piece selected for donation to the Pinacoteca was Rodrigo Matheus' Exterior. BESI Brasil also acquired works by Ana Nitzan, Lucas Lenci and Mila Mayer for its collection.



## PROJECT FOR THE CONSERVATION AND RESTORATION OF THE MARQUESA DE SANTOS MANSION

Espírito Santo Cultura, a Brazilian non-profit association, was founded in Rio de Janeiro in February 1998, during the project for the conservation and restoration of the church of the Santo Antônio de Igarassu Convent, in Pernambuco. At the time, the association was mainly supported by the Ricardo Espírito Santo Silva Foundation, in Portugal, and Espírito Santo Holding, in Brazil. In 2013, the association supported the second phase of the Project for the Conservation and Restoration of the Marquesa de Santos Mansion (Solar), in Rio de Janeiro, where the Marquesa lived between 1827 and 1829, and which now houses the First Reign Museum, inaugurated on March 12, 1979. Protected by the National Artistic and Historical Heritage Institute – IPHAN in 1938, the building is the museum's main asset, with two floors of rich artistic and architectural detail.



## DOCTORS' PHILHARMONIC ORCHESTRA PROJECT

The Albert Einstein Hospital Doctors' Philharmonic Orchestra Project was created following a series of musical performances by doctors in the hospital, when the flautist and surgeon Jaques Pinus decided to form an orchestra. International pianist Maria José Carrasqueira indicated Nasari Campo as conductor, charged with organizing the musicians and their instruments. The first rehearsal took place on August 2, 1989 and the orchestra has now completed 24 uninterrupted years of performances associated with social, cultural and philanthropic activities.



## MURAL (PAREDE) PROJECT – MUSEUM OF MODERN ART

Portuguese artist Rodrigo Oliveira is the author of the first Mural Project, held in 2013 in the São Paulo Museum of Modern Art – MAM as part of Portugal Year in Brazil. The work entitled *Boa vizinha (Aquarela do Brasil)* explores the plasticity of color in a painting that uses muralism and architecture to explore the relationship between the ex-colony and the ex-colonizer. The artist created a painting by spraying rainwater from small recipients containing watercolor cakes stuck to small paint pallets on the ceiling. With a subtle and colorful effect, the apparently cheerful piece makes reference to more profound and critical content, using the United States' Good Neighbor Policy during the Roosevelt administration (1933-1945) to focus on the assimilation by Portugal of an exotic image of Brazil mainly thanks to the telenovelas exported by the former colony to the former colonizer.



'06

# Communications and **Relationships**

## **FAIRS AND EVENTS**

### **MACROECONOMIC EVENTS**

In 2013, for the fifth consecutive year, BESI Brasil promoted a series of events focusing on macroeconomics, comprising meetings and talks presided over by the Bank's Chief Economist, Jankiel Santos, which discussed the outlook for the following year and were geared towards clients, prospective clients and partners. Five regional events were held in São Paulo (SP), Belo Horizonte (MG), Rio de Janeiro (RJ) Poá (SP) and Curitiba (PR), with up to 150 participants per event. all of which fully attended.



ARTIST: Lucas Lenci  
TITLE: Saída - Tokio 2010  
TECHNIQUE: Photography. Printed on Canson  
Baryta Photographique 310 g paper  
SIZE: 100 X 150 cm

## **AGRIBUSINESS EVENT**

In 2013, BESI Brasil organized the First Agribusiness Conference, a one-day event in which industry specialists, economists, investors and large-scale farmers discussed Brazilian agribusiness strategies, exports and investments. Widely covered by the local media, the event was attended by Assunção Cristas, the Portuguese Minister of Agriculture, and Roberto Rodrigues, the former Brazilian Minister of Agriculture, as well as by representatives of the BNDES, the BM&FBovespa and the Getulio Vargas Foundation. The event was opened by BESI Brasil's CEO, Ricardo Espírito Santo.

## **SPORTING EVENTS**

BESI Brasil's sporting events are mainly geared towards high-end and prospective clients. In 2013, the Wealth Management area coordinated the eighth edition of the Brazil vs. Rest of the World Golf Championship in Rio de Janeiro, the third Espírito Santo VIP Tennis Cup, in Miami, and the first BESI Open, in Bahia, all of which were highly successful, ensuring new editions in 2014.

## **BESPHOTO**

For the third time in Brazil and the first time in partnership with the Tomie Ohtake Institute, BESI Brasil held the BESPhoto photography contest and exhibition, featuring new works by finalists Albano Silva Pereira (Lisbon, 2011), Filipe Branquinho (Maputo, 2011), Sofia Borges (Brazil, 2012) and Pedro Motta (Brazil, 2012), the latter of whom won the 9th edition of the award.

## **MEDIA RELATIONS**

In 2013, BESI Brasil and MSLGROUP Andreoli promoted a series of strategic initiatives to increase proximity with the media and the community, thereby improving transparency. The Bank held ten meetings with journalists and gave 542 interviews, resulting in 2,200 mentions in the media (printed, online, broadcast, etc.). The year was marked by more homogeneous exposure of the Bank's executives from different business areas and increased recourse to BESI Brasil as a source for various issues related to investment banking. Relationship meetings were held with the country's main media vehicles, including Valor Econômico, Revista Exame and Agência Estado, as well as international outlets, such as the Financial Times and Reuters. The Bank also strengthened ties with specialized trade publications by sending out daily material, reminders and invitations to specific events. Agribusiness outlets were invited to cover BESI's First Agribusiness Conference, generating extensive exposure and building BESI Brasil's reputation as an important source for the sector. The results obtained in 2013 indicate that there is room for increasing the exposure of the Bank's different areas, strengthening its brand in the Brazilian market. As a result, media communications should follow the same strategy in 2014, bringing the Bank closer to journalists.



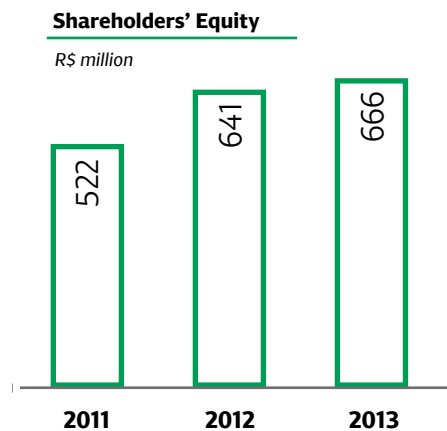
Good media  
relations resulted  
in 2,200  
media mentions  
in 2013

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# Annual Results

BESI Brasil overcame the difficulties imposed by the domestic and international economic scenario in 2013 and recorded a net profit of R\$40.9 million with a return on average annualized equity (ROAE) of 6.4%. In order to overcome adversities, BESI Brasil, an investment bank that operates mostly in the local market, followed its business strategy of creating value for its clients by focusing on segments and products that confirm its capacity to combine expertise and tradition to offer tailor-made solutions.







ARTIST: CIA de Foto  
TITLE: Agora 12, 2012  
TECHNIQUE: Photography, Printed in mineral pigment on Canson Baryta Photographique 310 g paper  
SIZE: 70 X 210 cm

ARTIST: CIA de Foto  
TITLE: Agora 14, 2012  
TECHNIQUE: Photography, Printed in mineral pigment on Canson Baryta Photographique 310 g paper.  
SIZE: 70 X 210 cm

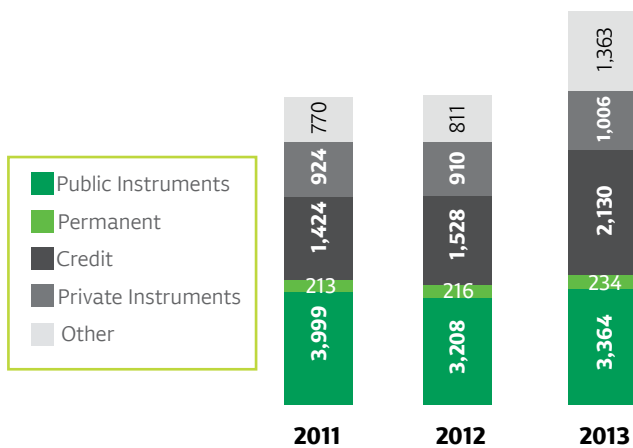
The Bank has maintained its strong liquidity position, closing the period with a portfolio of unrestricted securities totaling R\$1.6 billion, corresponds to 2.5 times final equity. In a period of uncertainties and adversities, BESI Brasil preserved its liquidity by being even more prudent and selective.

The securities portfolio totaled R\$4.37 billion, 6.1% up on 2012 thanks to the increase in foreign debentures and securities and representing 54.0% of total assets, versus 61.7% in 2012. Of this total, 77.0% was represented by government bonds and 23.0% by private bonds.

The Bank closed the year with total assets of R\$8.1 billion, 21.3% higher than in December 2012. Short-term interbank investments and the portfolio of securities and derivative financial instruments stood at R\$5.5 billion, up by 13.8%.

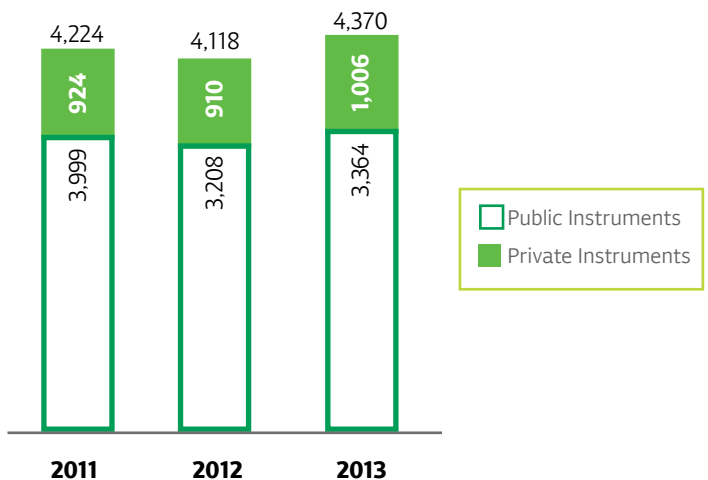
### Total Assets

R\$ million



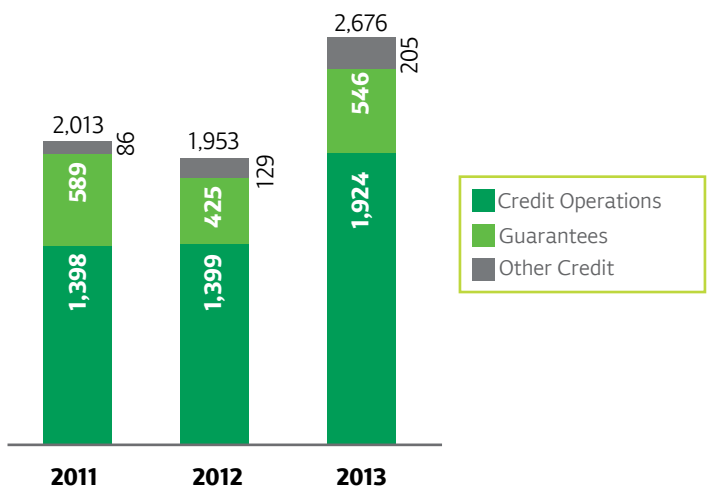
### Securities

R\$ million



Credit operations closed the year at R\$2.1 billion, 39.4% more than the R\$1.5 billion recorded in 2012. Including off-balance sheet guarantees totaling R\$545.9 million, the credit portfolio ended 2013 at R\$2.7 billion, 37.0% more than the year before. This amount includes credit operations with the BNDES System, which, including guarantees, totaled R\$359.8 million, corresponding to 13.4% of the total credit portfolio.

### Credit Portfolio and Guarantees

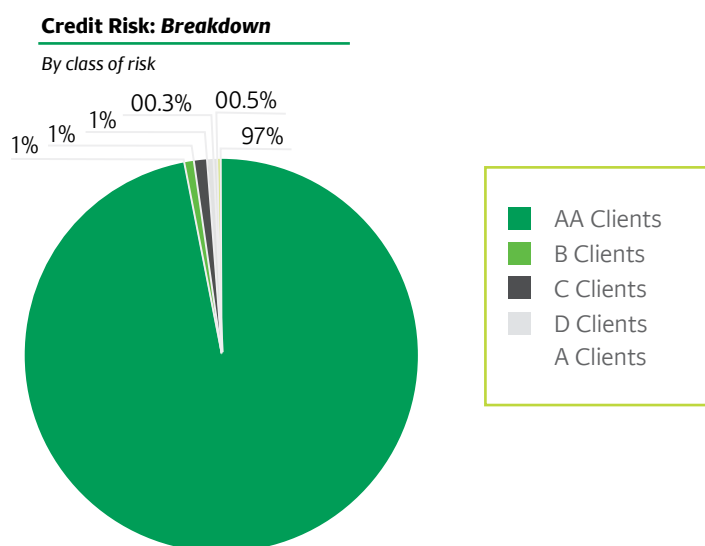


BESI Brasil's credit and guarantee operations are designed to expand the investment banking business, i.e. these operations support investment banking activities that require credit. This area is led by project finance, which accounts for 40.0% of loans and guarantees.

In December 2013, BESI Brasil's credit portfolio contained 141 clients, with 320 operations averaging R\$8.36 million each and an average maturity of 2.48 years. Excluding BNDES onlending operations (with an average term of 12.3 years), whose maturity is the same as that of the BNDES funding, the average term of this portfolio was a mere 1.5 years.

| <b>Credit Portfolio</b>                      | <b>Overdue - Up to 60 days</b> | <b>Until 3 months</b> | <b>3 to 12 months</b> | <b>1 to 3 years</b> | <b>3 to 5 years</b> | <b>More than 5 years</b> | <b>Total 12.31.2013</b> |
|--|--------------------------------|-----------------------|-----------------------|---------------------|---------------------|--------------------------|-------------------------|
| Loans - Industry                             | -                              | 269,039               | 145,549               | 147,854             | 55,812              | 6,228                    | 624,482                 |
| Loans - Commerce                             | -                              | 51,325                | 18,358                | 22,582              | 11,761              | -                        | 104,026                 |
| Loans - Other Services                       | -                              | 150,828               | 339,569               | 300,625             | 13,252              | 175                      | 804,449                 |
| Loans - Individuals                          | -                              | 271                   | 1,167                 | -                   | -                   | -                        | 1,438                   |
| Loans - Industry                             | -                              | 1,552                 | 3,772                 | 21,253              | 15,499              | 103,748                  | 145,824                 |
| Financing - Commerce                         | -                              | 326                   | -                     | 45,313              | -                   | -                        | 45,639                  |
| Financing - Other Services                   | -                              | 1,762                 | 8,355                 | 25,899              | 22,529              | 33,912                   | 92,457                  |
| Export financing - Industry                  | -                              | 2,260                 | 15,833                | 30,644              | -                   | -                        | 48,737                  |
| Export financing - Commerce                  | -                              | <b>17,296</b>         | <b>5,991</b>          | <b>10,000</b>       | -                   | -                        | <b>33,287</b>           |
| <b>Export financing - Other Services</b>     | -                              | <b>3,003</b>          | <b>8,000</b>          | <b>13,000</b>       | -                   | -                        | <b>24,003</b>           |
| <b>Total - Credit Operations</b>             | -                              | <b>497,662</b>        | <b>546,594</b>        | <b>617,170</b>      | <b>118,853</b>      | <b>144,063</b>           | <b>1,924,342</b>        |
| Export contract credits                      |                                |                       |                       |                     |                     |                          |                         |
| - Industry                                   | -                              | 17,542                | 56,996                | 77,809              | -                   | 14,339                   | 166,686                 |
| <b>- Commerce</b>                            | -                              | <b>569</b>            | -                     | <b>38,192</b>       | -                   | -                        | <b>38,761</b>           |
| <b>Total - Other Credits - Sundry</b>        | -                              | <b>18,111</b>         | <b>56,996</b>         | <b>116,001</b>      | -                   | <b>14,339</b>            | <b>205,447</b>          |
| <b>Total - Credit Operations</b>             | -                              | <b>515,773</b>        | <b>603,590</b>        | <b>733,171</b>      | <b>118,853</b>      | <b>158,402</b>           | <b>2,129,789</b>        |
| <b>GUARANTEES PROVIDED</b>                   |                                | <b>91,372</b>         | <b>253,572</b>        | <b>166,800</b>      | <b>7,873</b>        | <b>26,287</b>            | <b>545,904</b>          |
| <b>TOTAL CREDIT PORTFOLIO AND GUARANTEES</b> | -                              | <b>607,145</b>        | <b>857,162</b>        | <b>899,971</b>      | <b>126,726</b>      | <b>184,689</b>           | <b>2,675,693</b>        |
| <b>%</b>                                     | -                              | <b>23%</b>            | <b>32%</b>            | <b>34%</b>          | <b>5%</b>           | <b>7%</b>                | <b>100%</b>             |

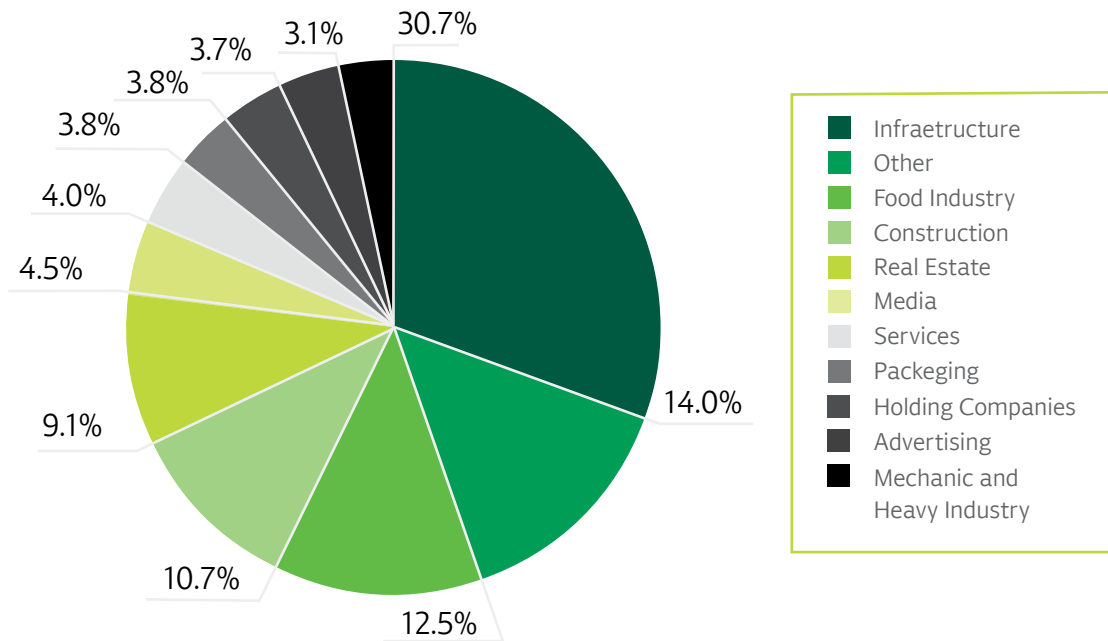
The credit and guarantee portfolio is spread across 31 different sectors, led by infrastructure (30.7% of the total), electricity generation and transmission (20.1%), basic sanitation (5.4%), telecommunications (2.6%), transport (1.8%) and gas (0.8%), mostly related to project finance operations.



In 2013, BESI Brasil's operations remained focused on infrastructure, especially on projects related to the PAC (growth acceleration program). Project finance accounted for 40.5% of the Bank's total revenue. Provisions for credit risk totaled R\$9.6 million, higher than the required minimum of R\$3.3 million, calculated in accordance with Resolution 2682 of the Brazilian Central Bank. This amount is considered sufficient to cover any specific global risks and represents provisions calculated in accordance with the risk levels and respective minimum percentages established by Central Bank regulations. It is worth noting the excellent quality of the credit portfolio, 99.0% of whose operations were rated between "AA" and "C", in accordance with prevailing Central Bank regulations.

**Credit Portfolio:**

Sectors (%)



In 2013, BESI Brasil's operations remained focused on infrastructure, **especially on projects related to the PAC (growth acceleration program)**



Another 2013 highlight was the maintenance of investment banking product operations in the Treasury and Risk Management, Capital Market, Project Finance, Acquisition Finance and M&A areas. The Bank also continued to develop the International Premium Unit (UIP) in Brazil, strengthening cross-border operations.

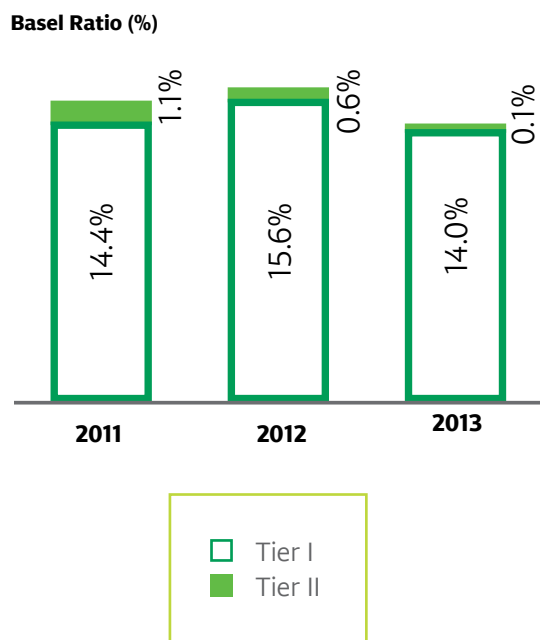
Global funding totaled R\$6.5 billion, 79.3% of which in Brazil and 20.7% in the international market, while deposits grew by 28% over 2012. Funding is mainly represented by term and interbank deposits (40.3%), repo operations (28.5%), securities issued abroad (14.0%) and other sources (17.2%).

| <b>SOURCES OF FUNDING</b>              | <b>2011</b>      | <b>2012</b>      | <b>2013</b>      |
|--|------------------|------------------|------------------|
| Interbank Deposits                     | 383,170          | 290,090          | 353,378          |
| Term Deposits                          | 1,312,153        | 1,889,566        | 2,284,196        |
| BNDES Onlendings                       | 170,373          | 147,012          | 274,597          |
| Subordinated Debt                      | 91,454           | 91,557           | 86,813           |
| Letters of Credit - Agribusiness (LCA) | 97,337           | 96,748           | 216,157          |
| Financial Bills (LF)                   | 63,466           | 131,084          | 112,463          |
| Letters of Credit - Real Estate (LCI)  | -                | -                | 5,625            |
| Repo Operations                        | 2,241,767        | 1,952,199        | 1,864,087        |
| <b>Total Domestic Market</b>           | <b>4,359,720</b> | <b>4,598,256</b> | <b>5,197,316</b> |
| <b>% of total</b>                      | <b>77.9%</b>     | <b>80.7%</b>     | <b>79.3%</b>     |
| <b>Term Deposits Abroad</b>            | <b>-</b>         | <b>79,845</b>    | <b>256,943</b>   |
| Instruments Issued Abroad              | 1,196,318        | 973,432          | 919,666          |
| Foreign Loans                          | 41,276           | 45,257           | 177,021          |
| <b>Total International Market</b>      | <b>1,237,594</b> | <b>1,098,534</b> | <b>1,353,630</b> |
| <b>% of total</b>                      | <b>22.1%</b>     | <b>19.3%</b>     | <b>20.7%</b>     |
| <b>Total Funding</b>                   | <b>5,597,314</b> | <b>5,696,790</b> | <b>6,550,946</b> |



BESI Brasil has sought to improve the balance of its revenue sources among the several investment banking areas and subsidiaries. Fee income from corporate finance, project finance, capital market and other client operations has increased its share of the Group's operating revenue.

Equity increased to R\$665.7 million in December 2013, versus R\$640.7 million in December 2012, the difference being due to retained earnings less interest on equity paid to shareholders, totaling R\$16.4 million. Reflecting the upturn in activity, the Bank's increased assets and the R\$100 million capital increase in November 2012, BESI Brasil's Basel Index (Tier II) came to 14.2%.



|  | (R\$ '000)     |
|--|----------------|
| Tier I Capital                                   | 667,202        |
| Tier II Capital                                  | 6,357          |
| <b>Total Reference Capital (Tiers I and II)</b>  | <b>673,559</b> |
| Credit risk weighting                            | 385,947        |
| Market risk weighting                            | 110,612        |
| Operating risk weighting                         | 26,805         |
| <b>Risk weighting - Total</b>                    | <b>523,364</b> |
| <b>Surplus Reference Capital</b>                 | <b>150,196</b> |
| Tier I   | 14.0%          |
| Tier II (Central Bank minimum requirement - 11%) | 14.2%          |

| Instruments  | Free             | Restricted       | Total on 12/31/13 |
|--|------------------|------------------|-------------------|
| Public Instruments - Financial Treasury Bills (LFT)          | 2,565            | -                | 2,565             |
| Public Instruments - National Treasury Bills (LTN)           | 104,374          | 2,124,494        | 2,228,868         |
| Public Instruments - National Treasury Bills Series B (NTNB) | 23,792           | 2,900            | 26,692            |
| Public Instruments - National Treasury Bills Series F (NTNF) | 426,147          | 442,355          | 868,502           |
| Private Instruments  | 529,415          | 123,594          | 653,009           |
| Investment Funds   | 172,618          | -                | 172,618           |
| Receivables-Backed Investment Funds (FIDCs) (Senior Shares)  | 41,828           | -                | 41,828            |
| Equities   | 40,985           | -                | 40,985            |
| Investments in Securities Abroad                             | 275,942          | 38,948           | 314,890           |
| Commercial Papers  | 20,222           | -                | 20,222            |
| <b>Total</b>   | <b>1.637.888</b> | <b>2.732.291</b> | <b>4.370.179</b>  |

## OUTLOOK


2014 will be another testing year for business in Brazil. In addition to the persistence of the current local economic situation, and despite the likely continuation of the recovery of the international economies, we can expect greater challenges than in previous years.

One such challenge is Brazil's economic scenario. Once again, GDP growth looks set to remain well below the country's full potential, hovering around 2.5%. Then there is the impasse of the World Cup and the presidential elections, as a result of which investors are expected to concentrate most of their business in the first half, only resuming after the elections.

Against this background of a sluggish economy, the calendar effect and fiercer competition in the investment banking segment, BESI Brasil has a robust pipeline for the year, especially in the first half, and its business units are fully prepared for the task ahead. In line with its strategy of focusing on investment banking and the infrastructure segment, the Bank intends to avoid the impact of the more lackluster economy, seeking opportunities presented by the market, as well as continuing with its proactive approach to client relations.


Infrastructure projects, both first generation (e.g. energy and highways) and second generation (hospitals, prisons and schools), will keep moving ahead, albeit at a much slower pace than the country needs. Given the accumulated expertise of BESI Brasil's business areas and the opportunities presented by the sector, this will be one of the Bank's principal targets in 2014.

In regard to client and business origination, the Commercial area will continue to invest in strengthening relations with its portfolio and in identifying more opportunities with Corporate segment companies, a growing and increasingly professionalized market in Brazil.



The Bank intends to avoid the impact of the more lackluster economy, seeking opportunities presented by the market, **as well as continuing with its proactive approach to client relations**

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The Capital Market area also expects less aggressive operations, with a similar concentration in the opening months and a focus on the domestic market. In addition, given the period's greater economic volatility, there are prospects of increased gains from the Bank's own portfolio and from treasury operations, which are likely to maintain their focus on opportunities in the Funding, Global Markets and Risk Management areas.

In accordance with the same strategy, BESI Brasil's M&A area has a well-structured pipeline to maintain its performance, despite prospects of modest emerging country growth. However, it is the structured operation and project finance areas that are the most promising in 2014, given that the public-sector infrastructure improvement programs are still presenting major development opportunities.

BESI Brasil's subsidiaries will also be doing everything possible to maintain their operations and take advantage of tendencies and opportunities in the first half. The Asset Management (BESAF) and Wealth Management (BES DTVM) areas will be merged in 2014, thereby streamlining operations, reducing costs and expanding the product mix and BESI Brasil's market representativeness. The new structure will have slightly more than R\$2 billion in assets under management and should generate synergy gains and savings of up to 18% of the expenses of both companies. Its positioning in 2014 will be more defensive, favoring greater investment portfolio risk diversification.

In short, sharing the tradition of the Banco Espírito Santo Group, BESI Brasil is a solid bank with many years of experience in assisting transactions, a background that allows it to innovate and adopt a flexible stance in a challenging environment. It is this attitude that helped it achieve the results it did in 2013 and it is the same attitude that will guarantee the longevity of its future operations.



BESI Brasil's  
background allows  
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## **DECLARATION OF COMPLIANCE**

The present declaration confirms the appropriateness, in all relevant aspects, of the asset and financial positions of BES Investimento do Brasil S.A. - Banco de Investimento, as of December 31, 2013, of the results of operations, changes in equity, and cash flows, and in compliance with Brazilian accounting practices.

The Management of BES Investimento do Brasil S.A. - Banco de Investimento hereby declares that:

The accounting systems and internal controls are appropriate for the institution's type of activity and transaction volumes and that all the transactions in the fiscal year ended December 31, 2011 were duly recorded and disclosed.

Apart from those facts disclosed in the financial statements, Management is not aware of:

Any notification or communication from government agencies or regulatory entities regarding full or partial non-compliance with regulatory requirements that could have a material impact on the financial statements;

Any failure to comply with contractual obligations, or legal or regulatory provisions whose effects should have been disclosed in the financial statements or registered as a contingent liability;

Any relevant liability or contingent loss, which should have been recorded as a loss incurred in the period, whose amount can be reasonably estimated.

**BES Investimento do Brasil S.A.**

**Banco de Investimento**

Av. Brigadeiro Faria Lima, 3729 - 6º andar  
São Paulo - SP - CEP 04538-905

Images

**BES Investimento do Brasil Artworks**

Coordination

**BES Investimento do Brasil**

**Communications Department**

Planning / Graphic Project / Content / Translation

**MZ Group**

