Management Report

Summary of Management Report

International Economic Framework

The year under review was marked by a slowdown in global economic activity and GDP contraction in the Eurozone. Among contributing factors, were restrictive fiscal policies and private sector deleveraging in developed economies; weakening demand and fears of a *hard landing* in China, along with uncertainty over the Euro Zone debt crisis. The latter factor was particularly noticeable during the 1st half of 2012, due to political instability and fiscal developments in Greece and the growing crisis contagion that affected the economies in countries such as Spain or Italy.

However 2nd half of 2012 saw financial market stabilisation and a retreat from fears of a Eurozone breakup, basically reflected in a significant decline in government bond *spreads* in peripheral economies as measured against Germany. Apart from some progress towards greater financial and budgetary integration, the improved sentiment stemmed primarily from the ECB's move to create *Outright Monetary Transactions*. These opened the door to unlimited debt purchases in Eurozone economies, along with possible formal programmes of ESM financial assistance.

Potentially the biggest global risk stemmed from the impact of strong expansionary monetary policies implemented by major central banks and taken against a background of low inflationary pressures. More significant was the U.S. Federal Reserve's so-called QE3 reinforcement of *quantitative easing* along with the ECB's *long term refinancing operations* and the *quantitative easing* embarked on by Central Banks in England and Japan. Following a cut of 25 bps in July the ECB maintained its benchmark interest rate level unchanged at 0.75% through to year-end. Overall in 2012, 3-month Euribor fell from 1.356% to 0.187% and the euro gained 1.8% against the dollar, to stand at EUR / USD 1.32.

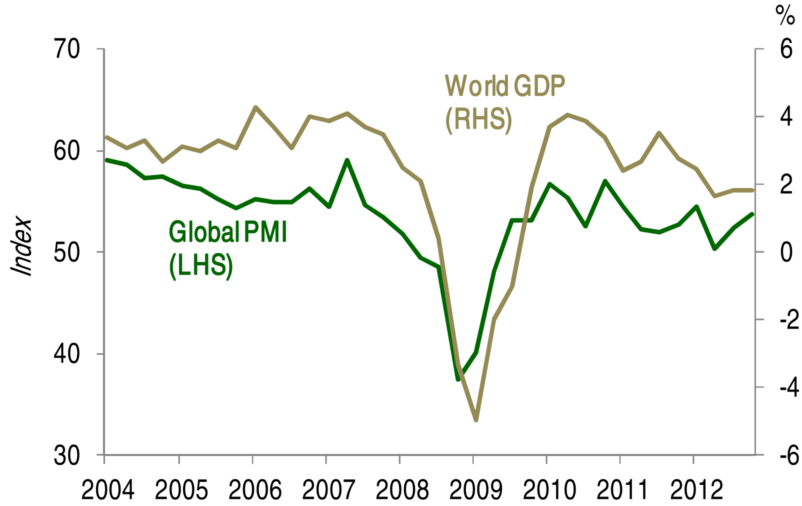
The S&P500 index for the NYSE appreciated by 13.4%. In Europe, the DAX and CAC40 delivered annual gains of 29.1% and 15.2%, respectively. The PSI-20 and IBEX showed a pronounced Q4 improvement -- up 8.7% and 5.95% respectively -- despite a less favourable performance in the earlier part of the year (2.9% and -4.7%, respectively).

Tracking overall sentiment for the year, the price of Brent Crude dropped in 1st quarter and 2nd quarter, from USD 123.8 to USD 97/barrel, before recovering after the summer to close the year at USD 111.9/barrel, an increase of approximately 4% over its end 2011 level.

Summary of Management Report (continued)

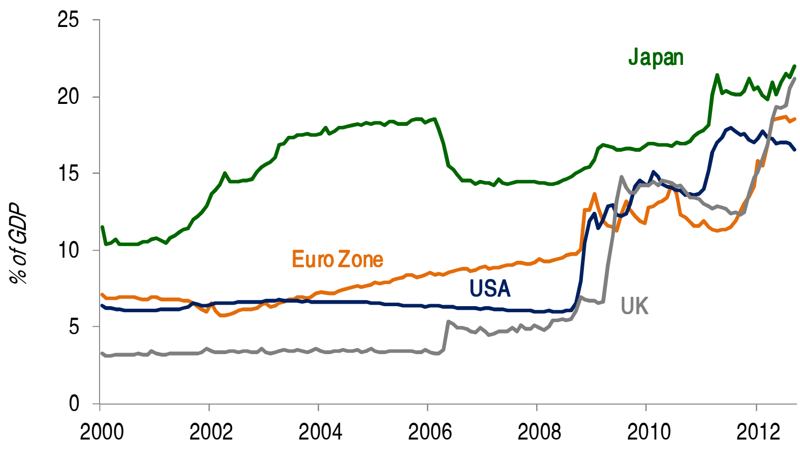
International Economic Framework (continued)

Figure 1: World GDP Growth vs. Global PMI



Source: Bloomberg

Figure 2: Monetary Base (% GDP)

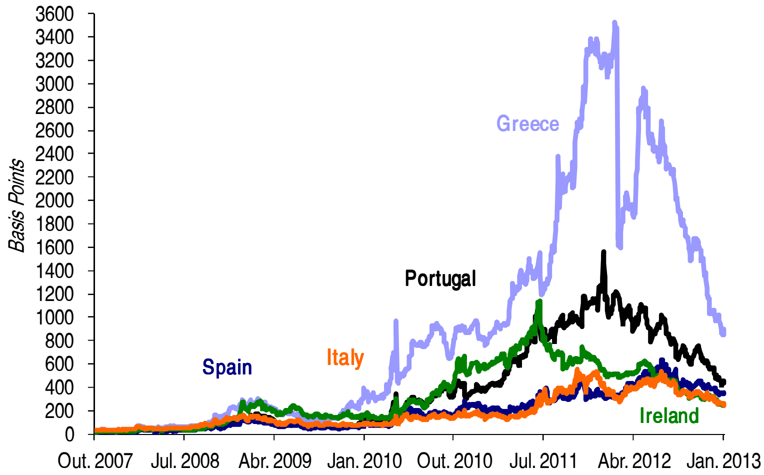


Source: Reuters EcoWin

Summary of Management Report (continued)

International Economic Framework (continued)

Figure 3: Public debt 10 year spreads vs. Germany



Source: Bloomberg

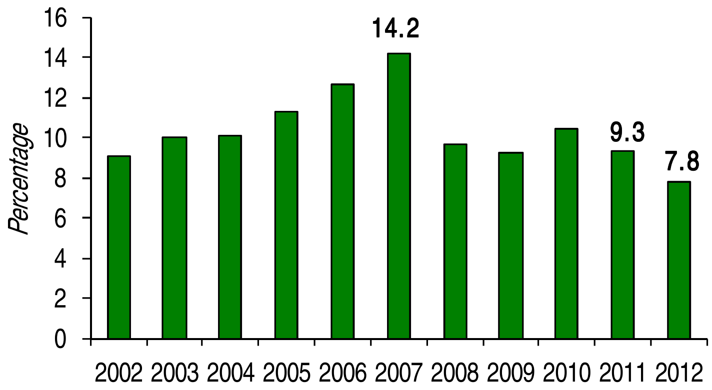
China

China's economy grew by 7.8% in 2012, the lowest level in 13 years, reflecting the gradual "normalization" of its expansionary trajectory, after more than a decade where the average growth level was consistently above 10%. The slowdown became sharper between late 2011 and early 2012, reflecting a decline in exports and lower levels of *stocks* held by businesses. This trend was reversed in the closing months of the year, based on signs of stability (e.g. improved business sentiment from October, an export recovery, a rise in electricity generation, etc.), that followed introduction of expansionist monetary and fiscal policies. There was further positive impact from government's announced intention of expediting approvals for new infrastructure projects so as to consolidate expanding activity. This was an important signal that the authorities were serious about inhibiting any sharp turndown in growth. With money supply under control, -- growth around the Central Bank *target* of 14% -- and with no significant inflationary pressures, there was room for government to provide this kind of growth stimulus. This set the Chinese economy on a trajectory of controlled deceleration, the so-called *soft landing*, which saw GDP growth slow from 9.3% in 2011 to 7.8% in 2012.

Summary of Management Report (continued)

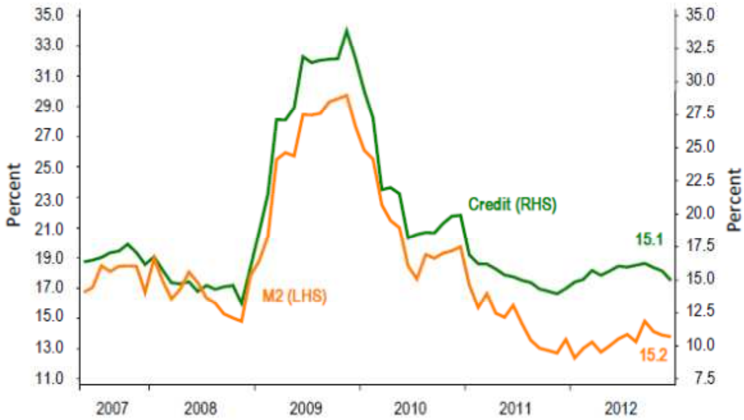
China (continued)

Figure 4: China GDP annual growth



Source: Reuters EcoWin Pro

Figure 5: Credit and M2 (annual rate of change, in %)



Source: Reuters EcoWin Pro

Summary of Management Report (continued)

China (continued)

Figure 6: PMI industry

Source: Bloomberg

Macau

In a substantially positive outcome Macau's economy grew 9.9% in 2012, even though slower than the 21.8% recorded in 2011. Underlying this performance was lower stimulus from the external environment, in particular slower growth in China further affected in part by a climate of global uncertainty and increased aversion to risk.

The slowdown reported was reflected also in foreign trade which saw both export and import performance cool with growth down to 7.3% and 5.8%, respectively, against 29% and 30% in 2011. Export of services -- the main driver of economic growth -- saw a sharp slowdown from Q2, posting a modest increase of 6.8% (as against 30.1% y-o-y in 2011) mainly due to more moderate revenue growth on items such as Gaming and Visitor Expenditure. With the slowdown in the Chinese economy in 2012 and consequent increased lending restrictions on mainland China -- Macau's main "VIP" customer market -- Gaming and Visitor Expenditure revenue slowed significantly contributing to reduced economic activity. However in the export of Goods there was a remarkable reversal in the recent downward trend and despite global economic weakness these improved by an extraordinary 23.2%.

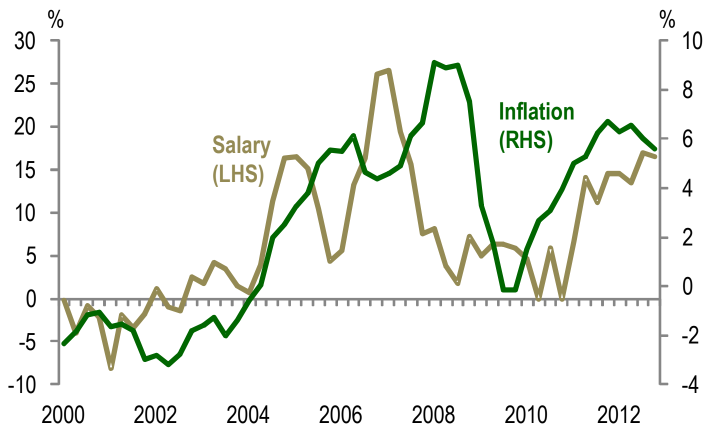
Among items under Internal Expenses, of particular note was the strength of investment, which saw a 19.1% growth over the period, mainly thanks to the public sector, one of the principal drivers of economic growth. While slowing, private consumption still rose by 9.1%, spurred by favourable labour market conditions and an easing of inflationary pressures. Average inflation was 5.6% while the median wage increased by 9.1%. This led to an improvement in average household purchasing power and stronger domestic demand.

Summary of Management Report (continued)

Macau (continued)

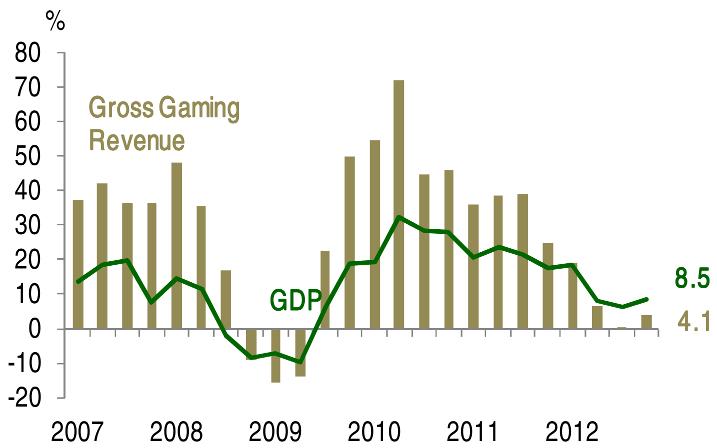
Despite the slowdown in activity, Macau's economic performance was very positive reflecting an increasingly mature economy and more sustainable growth. The labour market benefited from the good economic performance, with unemployment declining to 1.9% of the economically active population by year-end, a very low level and one reflecting the robustness of the economy.

Figure 7: ***Median salary (%, y-o-y) and inflation rate (%)***



Source: DSEC

Figure 8: ***Quarterly GDP (%, y-o-y) and monthly Gaming income (%, y-o-y)***



Source: DSEC

Summary of Management Report (continued)

Banco Espírito Santo do Oriente, SA ("BESOR" or the "Bank") reported a very positive performance on its main management indicators in 2012, against the previous year. Operating Income increased 29.9%, to MOP 70,744,413. Total Net Assets improved by 80.9%, to MOP 4,719,342,888.47 and Net Profits rose by 28.9%, to MOP 42,391,358.82.

The very positive improvement in reported Operations and Profits by BESOR is essentially due to an increased pace in Corporate/Trade Finance, associated with significant trade flows between mainland China and countries where BES Group has a decisive strategic presence. These include Africa, Latin America, and Europe, and the use of Macau as a business platform between China and Portuguese-speaking countries.

The retention and growth of the Bank's deposit base over recent years, remains of particular relevance in the current climate. BESOR further developed new business initiatives with its various customer segments which in turn led to a substantial increase in customer deposits -- up 142.4% against 2011.

Proposed disbursement

In compliance with legal and statutory requirements, the Board proposes that the annual meeting approve earnings for the year ended December 31, 2012, totaling MOP 42,391,358.82 (forty two million three hundred ninety one thousand, three hundred fifty eight patacas and eighty two avos) shall be distributed as follows:

To Legal Reserves [a]	MOP 8,478,271.76
To Retained Earnings	MOP 33,913,087.06

(a) 20% of Net Profit in accordance with the applicable legislation.

Board of Directors

Macau, 12 March 2013

The Report from the Supervisory Board

Dear Shareholders,

Pursuant to the applicable legal and statutory provisos, the Supervisory Board hereby submits its activity report and opinion on the Board of Directors' Report and Accounts of **BANCO ESPÍRITO SANTO DO ORIENTE, S.A.**, for the Financial Year ended 31 December 2012.

The Board of Directors' Report outlines in a clear manner the economic situation and progress of the Bank's activity during the 2012 Financial Year.

We have examined the regularity of the books and accounting records and are not aware of any non-compliance with the law and the articles of association.

As a result of our examination, we believe the Board of Directors' Report gives a fair view of the Bank's activity and the Accounts comply with the law and statutory provisos.

Based on such examination and conclusions, we are of the opinion that:

1. The Board of Directors' Report, the Balance Sheet and the Profit and Loss Account should be approved; and,

2. The proposal relating to the appropriation of profits should be approved.

The Supervisory Board
Macau, 19 March 2013