BANCO ESPIRITO SANTO

09 BES
Annual Report

BES 2009

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BANCO
ESPIRITO
SANTO

This report is a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.

I Management Report

II Consolidated Financial Statements and Notes to the Financial Statements

JORGE MOLDER b. 1947, Portugal. From the series The Secret Agent **"Caixas #6"** 1991. Gelatin Silver Print 102x102cm. Edition: 3 + 1AP. Courtesy the artist.

III Corporate Governance Report

JORGE MOLDER b. 1947, Portugal. From the series The Secret Agent **"Caixas #12"** 1991. Gelatin Silver Print 102x102cm. Edition: 3 + 1AP. Courtesy the artist.

Key Indicators	2005	2006	2007	2008	2009
ACTIVITY (EUR million)					
Total Assets [1]	71,687	84,628	93,819	98,825	106,513
Net Assets	50,222	59,139	68,355	75,187	82,297
Customer Loans (gross)	35,451	40,546	47,389	51,964	53,958
Total Customer Funds	43,558	49,632	55,445	55,698	60,595
Own Funds	5,398	7,063	7,509	7,482	9,578
PROFITABILITY (%)					
Return on Equity(ROE)	13.5	14.7	16.6	9.8	10.0
Return on Assets(ROA)	0.61	0.81	0.98	0.56	0.66
SOLVENCY (%)					
Bank of Portugal [2]					
- Total	12.3	13.1	11.5	11.3	11.3
- TIER I	6.2	8.4	7.5	7.1	8.3
- CORE TIER I	4.7	7.0	6.6	6.1	8.0
ASSET QUALITY (%)					
Overdue Loans > 90 days/Customer Loans (gross)	1.33	1.11	1.00	1.09	1.60
Coverage of Overdue Loans > 90 days	196.6	218.2	228.8	219.0	191.5
Credit Provisions Reserve/Customer Loans	2.62	2.43	2.29	2.38	3.07
Cost of Risk [3]	0.69	0.51	0.49	0.57	1.07
PRODUCTIVITY / EFFICIENCY					
Operating Costs / Total Assets (%)	1.20	1.05	1.01	1.01	0.99
Assets per Emplyee (€,000)	9,444	10,855	10,520	10,479	11,381
Cost to Income (%)	56.0	52.3	47.5	53.0	43.1
Cost to Income (ex-markets) (%)	66.5	61.9	59.5	58.2	55.0
EMPLOYEES (nº)					
Total [4]	7,591	7,796	8,918	9,431	9,359
- Domestic	7,067	7,175	7,592	7,942	7,796
- Foreign	524	621	1,326	1,489	1,563
BRANCH NETWORK (nº)					
Retail Network	639	669	757	803	799
- Domestic	600	623	700	743	734
- Foreign	39	46	57	60	65
RATINGS					
Long Term					
STANDARD AND POOR'S	A -	A -	A	A	A
MOODY'S	A 1	A 1	Aa3	Aa3	A1
FITCHRatings	A+	A+	A+	A+	A+
Short Term					
STANDARD AND POOR'S	A 2	A 2	A 1	A 1	A 1
MOODY'S	P 1	P 1	P 1	P 1	P 1
FITCHRatings	F1	F1	F1	F1	F1

(1) Net Assets + Asset Management + Other off-balance sheet liabilities + Securitised credit
(2) 2008 and 2009 data calculated according to the IRB Foundation Method
(3) Provisions for Credit / Customer Loans (gross)
(4) In 2005, 2006 and 2007 considering employees of the BES Group financial companies; from 2008 this distinction is not relevant anymore

Results and Profitability	SIMBOL.	2005	2006	2007	2008	2009
AVERAGE BALANCE (EUR million)						
Net Assets	$\overline{NA}$	45,924	51,696	62,189	71,418	78,657
Interesting Earning Assets	$\overline{IEA}$	41,139	45,377	53,701	61,788	68,018
Capital and Reserves	$\overline{KP}$	1,844	2,642	3,457	3,779	4,886
INCOME STATEMENT (EUR million)						
Net Interest Income	NII	740.6	829.5	953.7	1,086.2	1,200.9
Fees and Commissions	FC	555.1	610.5	643.4	636.2	717.9
Commercial Banking Income	CBI	1,295.7	1,440.0	1,597.1	1,722.4	1,918.8
Capital Markets and Other Results	CMR	2,42.0	264.8	404.1	165.7	530.6
Banking Income	BI	1,537.7	1,704.8	2,001.2	1,888.1	2,449.4
Operating Costs	OC	861.2	891.3	950.7	1,001.6	1,055.7
Operating Income	OI	676.5	813.5	1,050.5	886.5	1393.7
Net Provisions	PROV	320.6	241.9	262.9	375.8	708.8
Income Before Taxes and Minorities	PBT	355.9	571.6	787.6	510.7	684.9
Taxes	T	65.8	135.4	152.5	83.5	109.8
Minority Interests	MI	9.6	15.5	28.0	24.9	53.0
Net Income	NI	280.5	420.7	607.1	402.3	522.1
PROFITABILITY (%)						
Net Interest Margin	NII / $\overline{IEA}$	1.80	1.83	1.78	1.76	1.77
Return on Fees and Commissions	FC / $\overline{IEA}$	1.35	1.35	1.20	1.03	1.06
Return on Capital Markets and Other Results	CM / $\overline{IEA}$	0.59	0.58	0.75	0.27	0.78
Business Margin	BI / $\overline{IEA}$	3.74	3.76	3.73	3.06	3.60
Weighting of Operating Costs	OC / $\overline{IEA}$	2.09	1.96	1.77	1.62	1.55
Weighting of Provisions	PROV / $\overline{IEA}$	0.78	0.53	0.49	0.61	1.04
Weighting of Minorities and Other Costs	(MI+IT+XR) / $\overline{IEA}$	0.18	0.33	0.34	0.18	0.24
Return on Interesting Earning Assets	NP / $\overline{IEA}$	0.68	0.93	1.13	0.65	0.77
Weighting of Interest Earning Assets	$\overline{IEA}$ / $\overline{NA}$	0.90	0.88	0.86	0.87	0.86
Return on Assets(ROA)	NP / $\overline{NA}$	0.61	0.81	0.98	0.56	0.66
Placements Multiplier	$\overline{NA}$ / $\overline{KP}$	22.16	18.01	17.00	17.32	15.07
Return on Equity (ROE)	NP / $\overline{KP}$	13.54	14.66	16.59	9.76	10.00

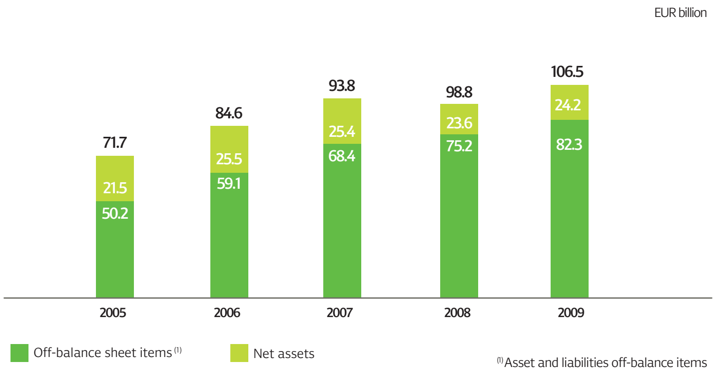
Bank of Portugal Reference Indicators

The table below lists the reference indicators established by Bank of Portugal Instruction no. 16/2004, for both December 2009 and 2008.

	2008	2009
SOLVENCY		
Regulatory Capital / Risk Weighted Assets [a]	11.3	11.3
Tier I Capital / Risk Weighted Assets [a]	7.1%	8.3%
ASSET QUALITY		
Overdue and Doubtful Loans [b]/Costumer Loans	1.6%	2.3%
Overdue and Doubtful Loans Net of Provisions [c]/ Customer Loans Net of Provions [c]	-0.8%	-0.8%
PROFITABILITY		
Income before Taxes and Minorities /Average Equity [d]	10.8%	12.1%
Banking Income [e]/Average Net Assets	2.6%	3.1%
Income before Taxes and Minorities /Average Net Assets	0.7%	0.9%
EFFICIENCY		
General Admin Costs [e]+Depreciation/Banking Income [e]	53.0%	43.1%
Staff Costs/Banking Income [e]	27.6%	23.1%

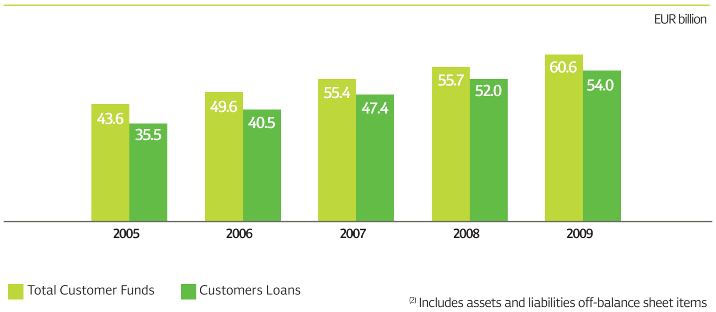
(a) Under IRB Foundation
(b) According to BoP Circular Letter nº 99/2003/DSB
(c) Credit net of impairment
(d) Includes average Minority Interests
(e) According to BoP Instruction nº16/2004

TOTAL ASSETS

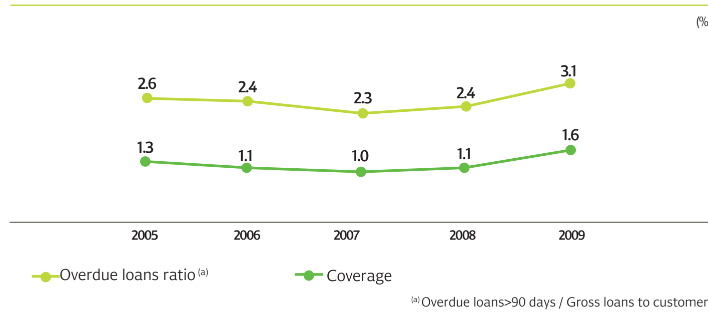


NET INCOME

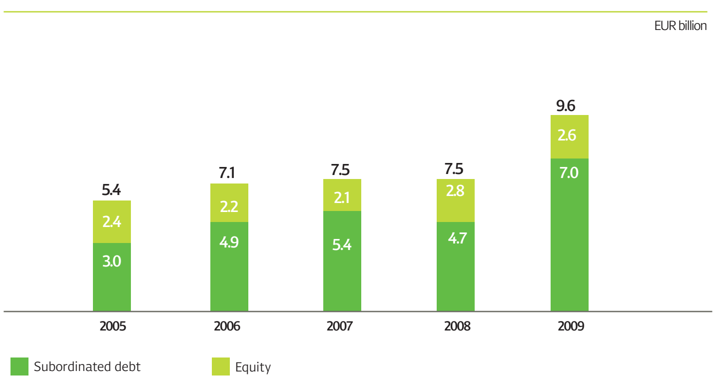
BUSINESS WITH CLIENTS [2]



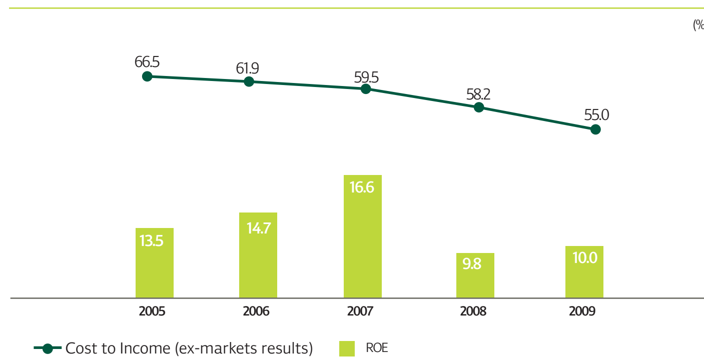
ASSET QUALITY



OWN FUNDS

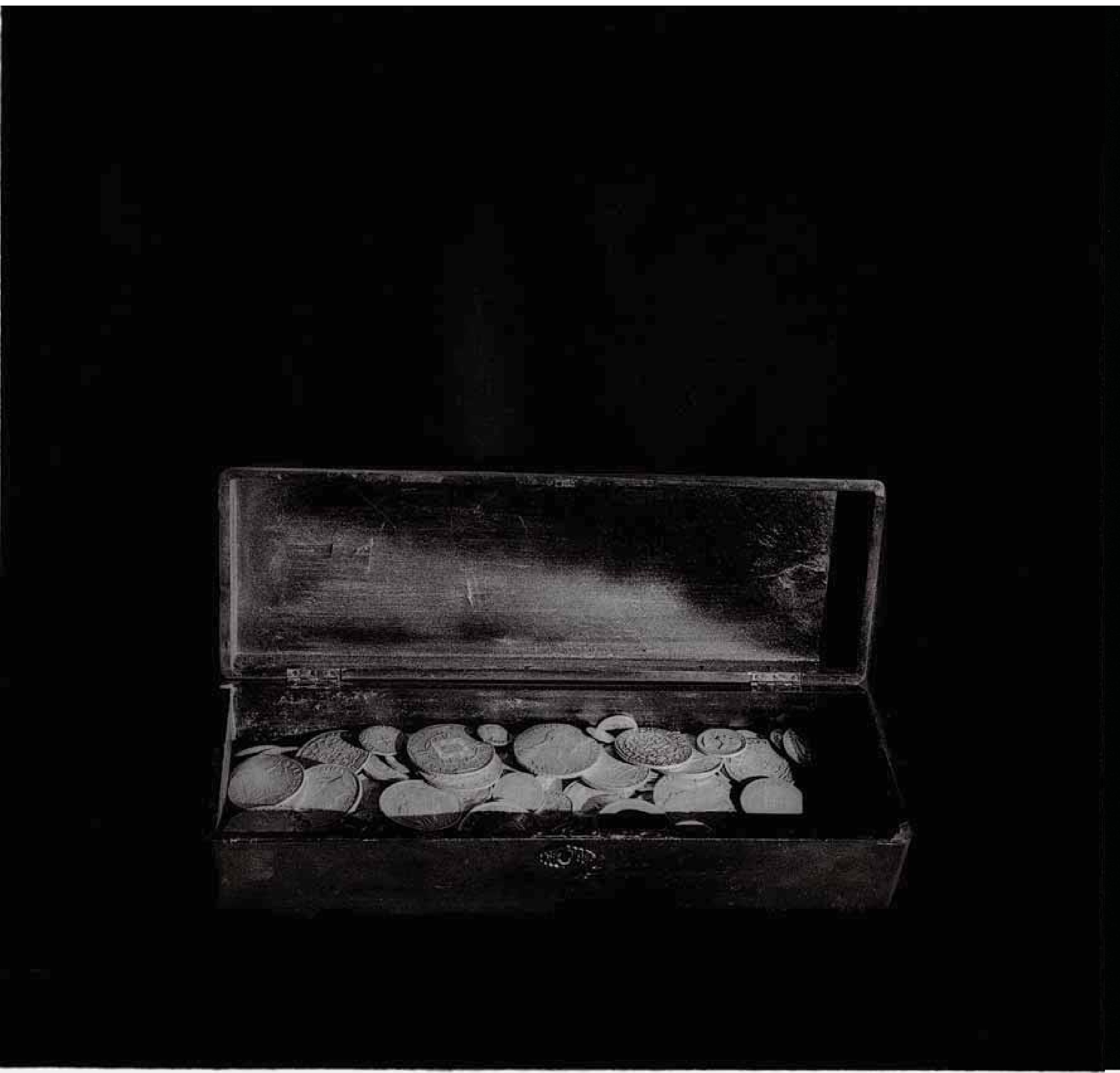


PROFITABILITY AND EFFICIENCY



Management Report

JORGE MOLDER b. 1947, Portugal. From the series "The Secret Agent **"Caixas #9"** 1991. Gelatin Silver Print 102x102cm. Edition: 3 + 1AP. Courtesy the artist.



JORGE MOLDER b. 1947, Portugal. From the series The Secret Agent **"Caixas #2"** 1991. Gelatin Silver Print 102x102cm. Edition: 3 + 1AP. Courtesy the artist.

01 Message of the Chairman

Joint Message of the Chairman of the Board of Directors and the Chairman of the Executive Committee

Dear Shareholders,

2009 witnessed a marked slowdown in activity in the main economic areas, following the global financial crisis which began in 2007. The crisis in both confidence and liquidity led to a fall in demand, in investment and in production. Governments and Central Banks worldwide put in place rescue plans intended to stimulate economic activity and prevent a deepening of the recession.

Whilst numerous developed economies experienced the worst crisis since the great depression of the 1930s emerging economies showed a great deal of resilience. China and India, Brazil, Angola and the Maghreb oil producing countries, of Northern Africa, driven by internal demand, successfully avoided the recession all together.

The Portuguese economy, functioning within the European Union, experienced the adverse effects of the crisis. Exports declined, penalised by the economic situation of its main trading partners in Europe, investment decreased, and internal demand fell; GDP dropped by 2.7%

Portuguese companies however made efforts to diversify, not only in terms of the production range of goods and services, but also the destination of their exports beyond their traditional markets. Angola, the Maghreb economies, Brazil and Venezuela, are some of the economies that are becoming increasingly important for Portuguese exports and investment.

In the context of the global recession, the equity markets paradoxically behaved positively. Following widespread decreases in 2008, 2009 saw the recouping of some of the losses from the previous year. The Portuguese PSI-20 index gained 33.5% in 2009, in line with gains made in European and US bourses; the Dow Jones Euro Stoxx 50 and S&P500 indices closed the year up by 21.1% and 23.5% respectively. The emerging economies, reflecting a far stronger economic picture, gained strongly through 2009, with the Bovespa (Brazil), Shanghai Composite (China) and Sensex (India) indices increasing by 82.7%, 79.9% and 81.0%.

The banking sector, having been the worst hit sector in 2008, rallied strongly in 2009, with the Dow Jones Stoxx 600 Banks European index up by 46.9%. BES shares came under pressure at the beginning of the year following the announcement of its EUR 1.2 billion rights issue. BES successfully completed its capital increase by the middle of April and was followed by a strong rise in the stock price during the rest of the year; BES shares closed up by 48.5% by the end of 2009.

It was within this difficult but challenging environment that BES was able to reinforce its market leading position in Portugal, and pursue its objective of continued international expansion with its focus on the southern Atlantic economies.

BES continues to support the Portuguese business community. Through its active participation in the PME Invest (SME investment programme) BES maintains its leading position by supporting companies in their drive for new markets. BES continues to promote internationalisation of Portuguese businesses, both through the specialised International Premium Unit and by endeavouring to meet the needs of its clients. BES continues to reinforce its presence in key international markets in order to develop greater relations for its clients in countries of high growth potential and encourage greater economic and cultural affinities with Portugal.

In November BES announced the sale of a 24.0% stake of BES Angola to local investors in order to boost the bank's activity in Angola. In Libya BES reached an agreement to purchase 40.0% of Aman Bank, BES will maintain management control of the bank. Aman Bank is one of the most innovating banks in that country. In Algeria BES entered into a joint venture with Banque Extérieur d'Algérie and Swicorp to set up a leasing company, BES will hold a stake of 35%.

This year's results are the outcome of a strategy which has been consistently followed over the years. In a difficult environment, BES posted net earnings of EUR 522.1 million, up 29.8% year-on-year and represent the second highest result of its history. Benefiting from the growth of commercial and investment banking activities in Angola, the United Kingdom and Brazil, the international area contributed effectively to the bank's consolidated recurrent earnings accounting for 39.0%.

Banking income grew by 29.7%, to EUR 2,449 million in 2009, underpinned by the strengthening of BES Group's position in the domestic market, where its market share rose to 21.2%, from 20.7% in 2008, and by the excellent performance of the international area, where banking income rose by 41.0%.

BES maintains a policy of operating cost control which increased by only 5.4%. BES Group is one of the most efficient banks in Europe (with a cost-to-income of 43.1%, vs. 53.0% in 2008). BES was ranked 28th on the world cost- to-income ranking index. .

BES maintained a conservative and prudent stance in risk management. The bank closed the year with one of highest ratios of provisions to total credit in Iberia, and with a ratio of overdue loans over 90 days to total loans of 1.6%, which is significantly below the average of the Iberian average.

The capital increase and the self financing capacity, evident through earnings generation, allowed BES to reach one of the strongest capital positions amongst financial institutions in Iberia, with a Core Tier I ratio of 8.0% and Tier I of 8.3%. BES has maintained a strong presence in the capital markets. Its EUR 1.2 billion rights issue achieved investor subscriptions of 138.9%. The competition for capital at the beginning of 2009 with other European banks further highlights the success of the operation.

Despite difficult market conditions in 2009 BES Group was able to issue medium and long term debt totalling EUR 7.0 billion, guaranteeing its refinancing needs for the period and also, to the greater part, the refinancing needs for 2010. Following BES' proactive stance towards financing the bank closed the year with a short-term liquidity surplus of EUR 1.7 billion.

In December 2009 the Basel Committee announced proposals concerning the revision of regulatory capital requirements. These proposals are now in the consultation phase and their outcome is not yet known. Given the strong Core Tier I ratio, BES Group is in a strong position and is confident of its ability to incorporate the changes that may arise.

In 2009 BES Group celebrated the 140th anniversary of its founding. The bank has been present in the market since 1869, and our standards remain unchanged; integrity, competence, innovation and dynamism help maintain the enterprising spirit that has guided its members from the very beginning. We strives to create value for all our stakeholders: for our Clients, by modernising the bank's services and making its products increasingly competitive; for our Employees, by promoting their personal and professional development; for Society in general, through our active engagement in sustainability programmes; and for our Shareholders, through the performance of the BES shares, which have largely outperformed the sector's European indices (the bank's share price has increased 135% since its privatisation in 1991 and 1992 until 31 December 2009).

For the last 140 years BES continued to create value for all, and it is the commitment of the entire BES team to keep working with the same determination, integrity and pledge to the future.

We end by expressing our recognition to the government and supervision authorities for their constant cooperation and confidence in the Banco Espírito Santo Group.

Ricardo Espírito Santo Silva Salgado
Chairman of the Executive Committee

Alberto Oliveira Pinto
Chairman of the Board of Directors

02 BES Group

2.1 Corporate Bodies

Given BES's status as a public traded company, its corporate bodies are elected at the General Shareholders' Meeting and are located in the Bank's head-office. Their current composition for the 2008-2011 four-year mandate is as follows

Board of Directors

Alberto Alves de Oliveira Pinto (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Jean-Frédéric de Leusse (Vice-Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Luís António Burnay Pinto de Carvalho Daun e Lorena
Ricardo Abecassis Espírito Santo Silva
José Manuel Ruivo da Pena
Amílcar Carlos Ferreira de Morais Pires
Bernard Delas[1]
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Bernard Octave Mary[2]
Michel Joseph Paul Goutorbe
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Megre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca
Luiz Carlos Trabuco Cappi[3]

The Board of Directors delegates the day-to-day management of the Bank to an Executive Committee composed of the following members:

Executive Committee
Ricardo Espírito Santo Silva Salgado (Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Amílcar Carlos Ferreira de Morais Pires
João Eduardo Moura da Silva Freixa

General Meeting
Paulo de Pitta e Cunha (Chairman)
Fernão de Carvalho Fernandes Thomaz (Vice-Chairman)
Nuno Miguel Matos Silva Pires Pombo (Secretary)

Audit Committee
José Manuel Ruivo da Pena (Presidente)
Luis António Burnay Pinto de Carvalho Daun e Lorena
João de Faria Rodrigues

Certified Auditor (ROC)
KPMG & Associados, SROC, S.A., represented by Sílvia Cristina de Sá Velho Corrêa da Silva Gomes

Company Secretary
Eugénio Fernando Quintais Lopes

1- Bernard Delas renounced his position as member of the Board of Directors on February 5th, 2010.
2- Bernard Octave Mary was co-opted by the Board of Directors on October 31st, 2008, to replace Gilles Roland Maurice Jacquin de Margerie, who had been co-opted by the Board of Directors on July 1st, 2008, to replace Jean-Yves Hocher.
3- Luiz Carlos Trabuco Cappi was elected by the General Meeting of July 16th, 2009.

Executive Committee


Ricardo Espírito Santo Silva Salgado
Chairman


José Manuel Pinheiro Espírito Santo Silva


António José Baptista do Souto


Jorge Alberto Carvalho Martins


José Maria Espírito Santo Silva Ricciardi


Jean-Luc Louis Marie Guinoiseau


Rui Manuel Duarte Sousa da Silveira


Joaquim Aníbal Brito Freixial de Goes


Pedro José de Sousa Fernandes Homem


Amílcar Carlos Ferreira de Morais Pires


João Eduardo Moura da Silva Freixa

2.2 Milestones and Main Events in 2009

2.2.1 Milestones

140 years building the future

Having its origins in the 19th century, Banco Espírito Santo Group remains confident in the principles it inherited and which continue to mark its identity and its culture.

Over the last 140 years, the Group remained faithful to the founding principles of the Espírito Santo brand, namely a permanent contribution to the economic, cultural and social development of Portugal and the countries where it operates.

BES Group's milestones are the clear manifestation of a legacy built up through a consistent strategy and a balanced and stable management.

1869 Banco Espírito Santo's origins date back to 1869, the year José Maria do Espírito Santo e Silva opened his exchange business ("Caza de Cambio").

1884 to 1915 José Maria do Espírito Santo e Silva sets up several banking houses: Beirão, Silva Pinto & Cª., (1884-1887), Silva, Beirão, Pinto & Cª. (1897-1911), J. M. Espírito Santo Silva (1911-1915), J. M. Espírito Santo Silva & Cª (1915).

1916 Following the death of its founder, the firm was replaced by Espírito Santo Silva & Cª., set up by his heirs and former partners under the management of his eldest son, José Ribeiro Espírito Santo Silva.

1920 The Banking House is made into a public company under the name of Banco Espírito Santo (BES). BES inaugurates its first branch at Torres Vedras.

1932 Ricardo Espírito Santo Silva is appointed Chairman of the Bank's Board of Directors.

1936 Banco Espírito Santo becomes the leading private bank in Portugal.

1937 BES merges with Banco Comercial de Lisboa, creating Banco Espírito Santo e Comercial de Lisboa (BESCL). With 33 branches spread all over the country, BESCL has the broadest geographical coverage by private sector banks.

1946 BES purchases the largest savings bank in the Azores in order to expand there its operations.

1955 On the death of Ricardo Espírito Santo, BESCL's Secretary General, Manuel Espírito Santo Silva succeeded as Chairman of the Board of Directors.

1966 Launch of pioneering products, namely personal loans and traveller's cheques. BESCL acquires the Blandy Brothers banking house, operating in Funchal (Madeira).

1973 In a joint venture with the First National City Bank of New York BESCL sets up Banco Inter-Unido in Luanda, Angola.

1975 The Portuguese credit institutions and insurance companies are nationalised.

1976 Creation of the Espírito Santo Group, under the leadership of Manuel Ricardo Pinheiro Espírito Santo Silva.

1986 In the same year that Portugal joined the EEC, the Espírito Santo Group sets up Banco Internacional de Crédito in Lisbon, in a joint venture with Caisse Nationale du Crédit Agricole.

1991 The reprivatisation of BESCL begins, and the Espírito Santo Group, in partnership with Caisse Nationale du Crédit Agricole, regains control of the Bank. In the same year, Crediflash (credit cards) was incorporated and the broker ESER - Sociedade Financeira de Corretagem was acquired.

1992 BES enters the Spanish market following the acquisition of Banco Industrial del Mediterráneo, later transformed into Banco Espírito Santo (Spain).

Creation of ESAF – Espírito Santo Activos Financeiros, the Group's holding company for the asset management business.

1995 Incorporation of Banco Espírito Santo do Oriente, in Macao.

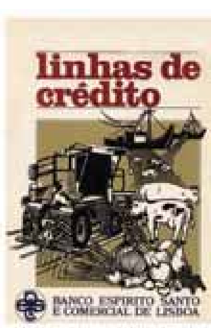
1932-1937

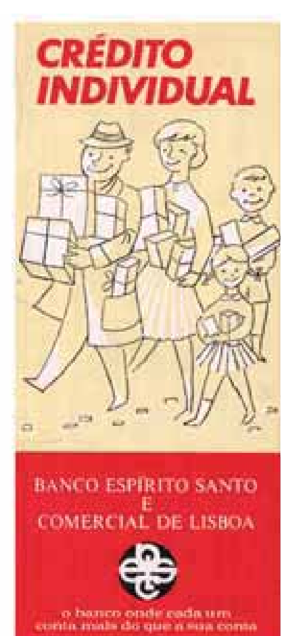
1937-1964

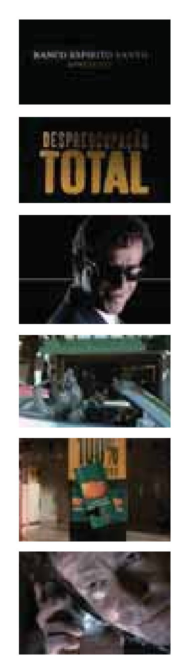
1965-1990

1990-2005

2006







140 YEARS

1999 On July 6th, BESCL changes its name to Banco Espírito Santo by public deed.

2001 Incorporation of Banco Espírito Santo de Angola and Banco BEST – Banco Electrónico de Serviço Total.

2002 Start-up of Banco Espírito Santo dos Açores, owned by Banco Espírito Santo as majority shareholder and by Caixa Económica da Misericórdia de Ponta Delgada and Bensaúde Participações, SGPS.

2003 Integration of ES Dealer (brokerage) into Banco Espírito Santo de Investimento. BES acquires a stake in Locarent (rent-a-car), a joint venture created by BES, CGD and Serfingest.

2004 Conclusion of the merger by incorporation of Euroges, Besleasing Mobiliária, and Besleasing Imobiliária into a new company called Besleasing e Factoring, Instituição Financeira de Crédito S.A.

2005 In September BES announces the merger by integration of Banco Internacional de Crédito (BIC), which was concluded by public deed on December 31st, 2005.

2006 In January the Banco Espírito Santo Group launches a new corporate identity.

In June the Group purchases 50% of BES Vida, Companhia de Seguros.

2007 Conclusion of the merger by incorporation of BES Spain, which becomes a BES branch.

2008 In March, in a joint venture with ESAF, BES Angola sets up BESAACTIF, the first fund management firm to operate in Angola. In December the merger by incorporation of Besleasing e Factoring into BES is completed

2.2.2 Main Events in 2009

JANUARY

7 BES launches a pioneering service in the banking market: BESnetwork is an international internet banking portal designed for companies doing business in Portugal, Spain, or in both countries.

Banco Espírito Santo renews its sponsorship contract with Cristiano Ronaldo for another two years (2009/10). The new agreement guarantees the use of the player's image to the exclusion of all other brands in Portugal, while in Spain it guarantees exclusiveness within the financial sector. Under the new contract, BES also holds preference rights for campaigns featuring the player in Angola.

8 BES launches a debt issue in the amount of EUR 1.5 billion guaranteed by the Portuguese State under the terms of law no. 60-A/2008, of October 20th, 2008, and Ministerial Order no. 1219-A/2008, of October 23rd, 2008.

19 For the third consecutive year BES receives the "Best Trade Finance Bank in Portugal" award from the Global Finance international magazine.

29 BES Group reports 2008 consolidated results. Net income totals EUR 402.3 million, a year-on-year decline of 33.7% and corresponding to a return on equity (ROE) of 9.8%.

BES informs that the Board of Directors will propose to the General Meeting of March 16th a capital increase providing gross proceeds of up to EUR 1.2 billion, with pre-emptive subscription rights reserved for shareholders.

FEBRUARY

3 The international rating agency Standard & Poor's reaffirms the "A" and "A-1" ratings for BES and BESI, while changing the outlook from stable to negative to reflect the possibility that the Portuguese economy could deteriorate at a more accelerated pace than expected, putting downward pressure on profitability and asset quality.

13 Espírito Santo Gestión, held by ESAF – Espírito Santo Activos Financeiros and BESSE (BES – Spain) is distinguished with the prize for "Best Group Over 3 Years – Bond Small". The Espírito Santo Euro Bond fund, also sold in Portugal by Banco Best, receives the prize for "Best Fund Over Five Years – Bond Euro – Corporates".

MARCH

3 Banco Espírito Santo is named the best bank operating in the Portuguese market in 2008 by the specialized Global Finance magazine.

5 Banco Espírito Santo Angola receives from the United Nations the "Planet Bank" award in recognition of the work developed in the field of sustainable development, namely in the protection of the environment and support to culture and education, in a country where concerns with these issues are only just emerging.

16 BES's General Meeting of Shareholders approves the management report, the individual and consolidated accounts for 2008 and the respective net income application. The General Meeting also approves the proposal to increase the Bank's share capital to EUR 3,499,999,998.00 through the issue of 666,666,666 new shares.

26 Payment of dividends on 2008 results. The gross dividend of EUR 0.16 per share corresponds to a payout ratio of 20% on a consolidated basis.

APRIL

2 a 12 BES Group is represented in the Portuguese stand of the Tripoli Trade Fair, in Libya, under a partnership with AICEP, the Portuguese Business Development Agency. 20 Portuguese firms participated in the event, taking the opportunity to establish important commercial contacts viewing the promotion of Portuguese exports to the Libyan market.

7 Moody's international rating agency places BES on review for possible downgrade of the bank's financial strength rating (BFSR) and long-term debt rating, as part of review of the Portuguese financial institutions and following the analysis performed by the agency that indicated the weakening of the Portuguese economic environment.

14 The Bank of Portugal authorises BES Group to use the Standardised Approach – TSA method to calculate regulatory capital requirements for operational risk, with effects as from March 31st, 2009.

15 EUR 1.2 billion capital increase is concluded. The market shows strong demand for the BES shares, with subscription volume reaching 926 million shares, corresponding to 138.9% of the shares issued.

16 The new shares issued start trading on the Euronext Lisbon at a nominal value of EUR 3 each.

30 The Bank of Portugal authorises BES Group to use the Internal Ratings Based (IRB) approach to calculate regulatory capital requirements for credit risk, with effects as from March 31st, 2009.

MAY

5 BES Group reports first quarter 2009 activity results. Net income totals EUR 101.3 million, which represents a year-on-year drop of 30.6% and a quarter-on-quarter increase of 50%, and corresponds to annualised return on equity (ROE) of 9.3%

7 Banco Espírito Santo is the first Portuguese private bank to endorse the United Nations Environmental Programme, having been invited to join this programme's Financial Initiative (UNEP FI). The UNEP FI resulted from a global partnership between the United Nations and the financial sector, which already involves more than 170 international financial institutions.

26 ESAF – Espírito Santo Activos Financeiros, the fund management firm of BES Group, is elected by Morningstar as the Best Portuguese Fund Manager in 2008.

28 BES issues senior debt under the Euro Medium Term Notes Programme in the amount of EUR 1.75 billion and maturity of 5 years, with a fixed rate of 5.625%.

30 May to 4 June BES Group is represented in the Portuguese stand of the Algiers Trade Fair, in Algeria, under a partnership with AICEP. 15 Portuguese firms participated in the event. Working closely with BES's local partner, Banque Extérieure d'Algérie, important commercial contacts were established that will permit to reinforce commercial transactions carried out through BES with the important Algerian market

JUNE

9 BES Investimento opens a branch in New York, thus expanding the scope of its international activity and reinforcing its presence in the American continent.

JULY

2 BES Investimento concludes a EUR 1.6 billion project finance operation in Poland, the first concluded by BES Group in the road sector in this country.

16 In an Extraordinary General Meeting of Shareholders, Luiz Carlos Trabuco Cappi is elected a member of the Board of Directors until the end of the current mandate (2008-2011). With this appointment, the number of members of the Board of Directors was increased to twenty seven.

28 BES Group releases first half of 2009 results. Consolidated net income totals EUR 246.2 million, corresponding to a year-on-year drop of 6.8% and to ROE of 10.1%.

AUGUST

3 Banco Espírito Santo's internet banking service for companies, BESnetwork, is considered by the Global Finance magazine "The Best Corporate/ Institutional Internet Bank" operating in the Portuguese market in 2009.

27 Incorporation of AVISTAR SGPS, SA, a holding company that will concentrate the strategic holdings held by BES. The new company is headquartered in Portugal and has share capital of EUR 100 million, fully subscribed and paid up by BES.

SEPTEMBER

16 Banco Espírito Santo and Banco Bradesco jointly create "2bCapital", a new private equity funds manager that will operate in Brazil.

Following a global review of financial institutions in the context of a European economic deterioration, Moody's rating agency downgrades BES's Bank Financial Strength Ratio (BFSR) to C-, outlook stable, and BES's debt and deposit ratings to A1, outlook stable.

20 to 24 BES Group organises the 1st Business Mission to Brazil, for which it invited 20 business persons. The industry sectors represented in the mission were those of Telecommunications, Renewable Energies, Consultancy and Project Management, and Hotel Suppliers and Food and Beverages. BES Group's local presence, through BES Investimento do Brasil and the joint venture with Banco Bradesco, one of the largest Brazilian banks, decisively contributed to facilitate contacts with the local economic agents, while ensuring financial advice on business transactions.

OCTOBER

7 BES Group launches the "BES Express Bill", a ground-breaking service that aims to improve confidence levels in business transactions, and meet the working capital funding needs of companies in a simple and efficient manner and at a low cost.

20 BES Group organises 2nd edition of the "Morocco Day in Portugal" international seminar, an event intended to provide information to companies about the Moroccan market. More than 300 participants took part in the event, which was also attended by several Moroccan personalities as well as by the representative of BES Group's local partner, Banque Marocaine du Commerce Extérieur.

27 BES Group informs that net income for the first nine months of 2009 reached EUR 360.8 million, corresponding to a year-on-year increase of 7.8% and to an annualised ROE of 9.4%.

29 BES Group jointly organises with AIP, the Portuguese Industrial Association and AICEP, the 4th edition of the Forum Portugal Exporter, the largest and most important event held in Portugal about exports and the internationalisation of the national companies. With the participation of 1,200 business persons, this year's edition included 15 seminars dedicated to the main strategic markets for promoting the exports and international expansion of the Portuguese companies.

NOVEMBER

2 After reviewing its outlook on the Portuguese Republic's ratings from "stable" to "negative", Moody's rating agency also changes the outlook of the senior note guaranteed by the Portuguese Republic issued by BES on January 8th, 2009, from "stable" to "negative".

17 BES Group issues senior debt under the Euro Medium Term Notes in the amount of EUR 1 billion with maturity of 3 years and 3 months, at a variable rate equivalent to the 3-month Euribor plus a spread of 105 b.p..

27 Banco Espírito Santo reaches an agreement to acquire a 40% stake in Amam Bank for Commerce and Investment Stock Company (Amam Bank), a private bank headquartered in Tripoli, Libya.

DECEMBER

7 Fitch Ratings reaffirms BES's Long-term Issuer Default Rating (IDR) at A+, with stable outlook.

10 BES Group informs it has sold a 24.0% stake of BES Angola to Portmill, Investimentos e Telecomunicações, S.A., an Angolan investor, for USD 375 million. As a result of this disposal, BES now holds 51.94% of the share capital of BES Angola.

21 BES establishes an agreement with Banque Extérieur d'Algérie (BEA) and Swicorp Ijar (Swicorp) to incorporate a leasing company in Algeria. BES will have a stake.

2.2.3 Prizes and Awards obtained in 2009

BANCO ESPÍRITO SANTO

Best Bank Award 2009

The Global Finance magazine considered BES Group as the best bank operating in Portugal in 2009.

BEST Private Banking in Portugal

BES Group was considered by the Euromoney magazine as the best bank in Portugal in the "Best Private Banking Services Overall" category. This award comes as a natural recognition of the excellence of BES Group in the Private Banking segment, where it has a leading position. The survey also stressed the wide range of products offered to the segment, including family office, financial advice, succession planning and private equity services.

2009 Sustainability Prize

As a result of a survey conducted by Heidrick & Strugles, BES was the winner of the 2009 Sustainability Prize, which aims to (i) publicly recognise organisations that embrace the challenge of sustainable development, (ii) identify and reward benchmark practices within Portugal, (ii) raise awareness to sustainability among the business community, the political agents and civil society, and (iv) promote benchmarkings and comparative analyses among companies of different types and sizes, as well as analyses by industry sectors, evolution analyses and analyses using different criteria.

2009 Company and Organisation Citizenship Prize for the banking sector

As a result of a survey conducted by PricewaterhouseCoopers and AESE (Lisbon Management and Business School), BES was distinguished with the 2009 Company and Organisation Citizenship Prize as the national financial institution with the best performance in combining social, environmental and economic concerns.

FTSE4Good

BES is since 2007 the only Portuguese bank integrated in the FTSE4Good Index Series, an achievement that reinforces its positioning as a socially responsible institution.
The FTSE4Good Index was created in 2001 with the aim of challenging companies to improve their environmental, social and economic practices.

BES leads in the financial sector - Accountability Rating Portugal 2009

This survey, conducted by Sair da Casca, a consultancy company in sustainable development, analyses the information publicly disclosed by companies in four different dimensions, namely Strategy, Management and Governance Systems, Stakeholder Engagement and Impact on the environment, the market and society, rewarding companies with the best accountability and disclosure practices regarding sustainable development.

BANCO ESPÍRITO SANTO DE INVESTMENTO

Best Investment Bank in Portugal

Awarded by the World Finance magazine, this award distinguishes banks that stand out for their capacity for leadership and geographic expansion, constant innovation and flexibility, performance and strategy, and capacity for growth and development.

Best M&A Bank in Portugal

An Euromoney Award for Excellence, this prize recognises the excellence and leadership shown by BES Investimento last year in the area of mergers and acquisitions.

Best Bank for M&A Advisory in Portugal – Real Estate

The winner of this prize, awarded by the Euromoney Magazine in the Real Estate Awards Category, is decided by voting among the players in the real estate and financial markets. BES Investimento was considered by its peers and business partners as the best investment bank in Portugal in mergers and acquisitions in the real estate sector carried out last year.

Best Bank for Debt Capital markets in Portugal

Awarded by the Euromoney Magazine, this prize distinguishes the financial institutions that completed important capital market operations in the real estate sector.

Renewable Deal of the Year

Awarded by the Project Finance International magazine for acting as leader of the financing of a 150 MW solar thermal park to be developed in Spain by the Acciona Group.

Americas Deal of the Year

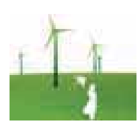
Awarded by the Project Finance International magazine for acting as leader of the financing of the construction by Odebrecht Oil&Gas of two vessels for deep water oil exploration, respectively NORBE VIII and IX.

Global Americas Transport Deal of the Year

Awarded by the Project Finance International magazine for acting as leader of the financing of the Rodoanel road project for the city of São Paulo.

Asia Pacific PPP Deal of the Year

Awarded by the Project Finance International magazine for acting as leader of financing of a water desalination plant to be developed by in Victoria, Australia.



1st place worldwide in financial advisory services to the renewable energies sector

The bank was ranked by the Infrastructure Journal in first place worldwide in financial advisory services to the renewable energies sector, having advised on transactions totalling USD 1.58 billion (EUR 1.09 billion) in 2009.

Planet Bank 2009

Banco Espírito Santo Angola received the "Planet Bank award 2009" from the International Committee for the Development of Planet Earth, coordinated by the UN via UNESCO. This award is made to the banking institution which has distinguished itself the most in supporting the dissemination of messages on protecting the environment and sustainability.

BESA "Best Bank in Angola 2009"

The World Finance magazine awarded Banco Espírito Santo Angola the prize for "Best Bank in Angola – 2009". According to the magazine, BES Angola was chosen for the characteristics of its activity in the Angolan market, namely the quality of the products and solutions provided to its clients, and constant innovation permitting to offer quality services.

Best Bank in Angola 2009

For the second year in a run, Banco Espírito Santo Angola earned the prize for "Best Bank in Angola" awarded by the Global Finance magazine. This prize was awarded based on exclusive research conducted by analysts, senior executives and consultants within the scope of the World's Best Emerging Market Banks survey, published in May 2009.

Best Foreign Exchange Provider Award 2009

Banco Espírito Santo Angola once again saw the quality of its services recognised through its classification as the "Best Foreign Exchange Bank in Angola 2009" by the Global Finance magazine. This award distinguishes the institutions with the best performance in the execution of international transactions.

BESA "Best Capital Market Award in Angola 2009

Banco Espírito Santo Angola received the "Best Capital Market Award 2009" from the EMEA Finance magazine for its active role in the organisation of a financial operation to raise a loan to the Government of Angola for an estimated USD 1.5 billion. EMEA Finance classified the operation as benchmark due to the manner in which it was structured.

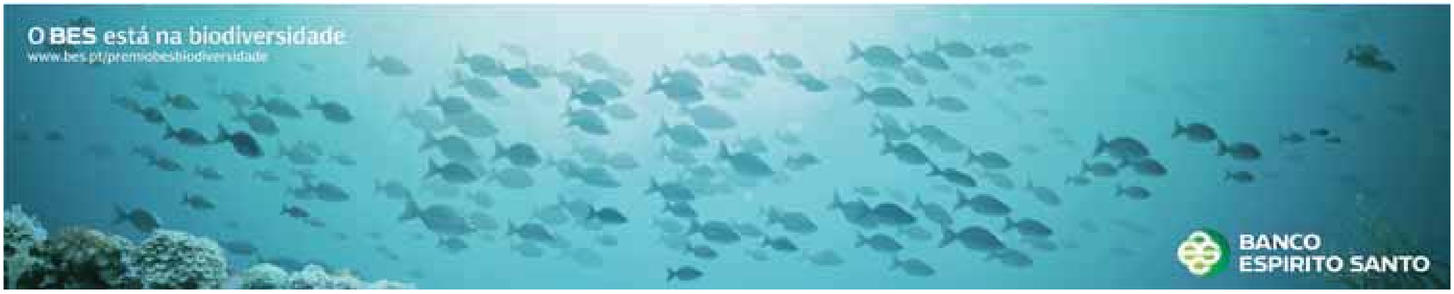
BESA "Best Sustainability Bank in Angola"

The prize, awarded by the EMEA Finance magazine to financial institutions that promote sustainability, stresses the fact that BESA received the "Planet Bank award 2009" from UNESCO's International Committee for the Development of Planet Earth due to its policy of promoting sustainability in Angola and in the world.


O BES está presente na Literacia Financeira
Saiba tudo em www.bes.pt/olimpiadasdamatematica
BANCO
ESPIRITO SANTO


O BES está no património
Saiba tudo em www.bes.pt/fundacaobatalhadealjubarrota
BANCO
ESPIRITO SANTO


O BES está no ambiente
Saiba tudo em www.bes.pt/ambienteenergia
BANCO
ESPIRITO SANTO


O BES está na biodiversidade
www.bes.pt/premiobesbiodiversidade
BANCO
ESPIRITO SANTO


O BES está no desenvolvimento sustentável
BANCO
ESPIRITO SANTO

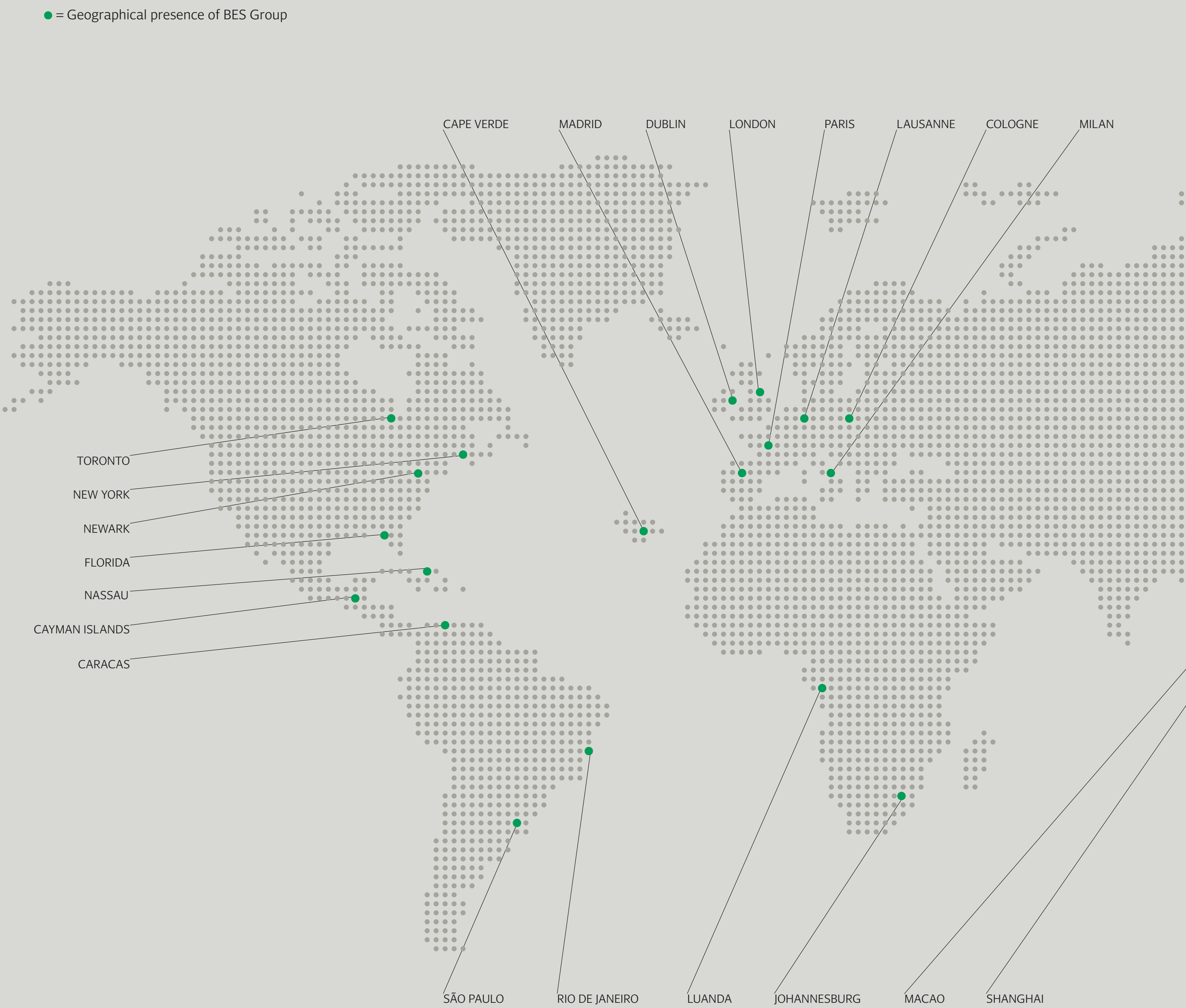

O BES está nas energias renováveis
Saiba tudo em www.bes.pt/energiasrenovaveis
BANCO
ESPIRITO SANTO

2.3 Profile of BES Group

2.3.1 Geographical Presence and Distribution Network

BES Group pursues a strategy of organic growth in the domestic market complemented by an international presence focused on markets with cultural and economic affinities with Portugal, as well as markets showing high potential in specific areas where the Group holds particular skills. In the development of its international activities, the Group exports its expertise and skills in Corporate Banking, Investment Banking and Private Banking.

BES' international operations are developed through the following main units:



6 Subsidiaries and Associated Companies:

BES Angola, BES Oriente (Macao), BES Investimento do Brasil (Brazil), BES Vénétie (France), ES Bank (USA) and ES plc (Ireland).

6 International Branches:

Spain, New York, London, Cape Verde, Nassau, Cayman Islands.

1 Off-shore Branch:

Madeira.

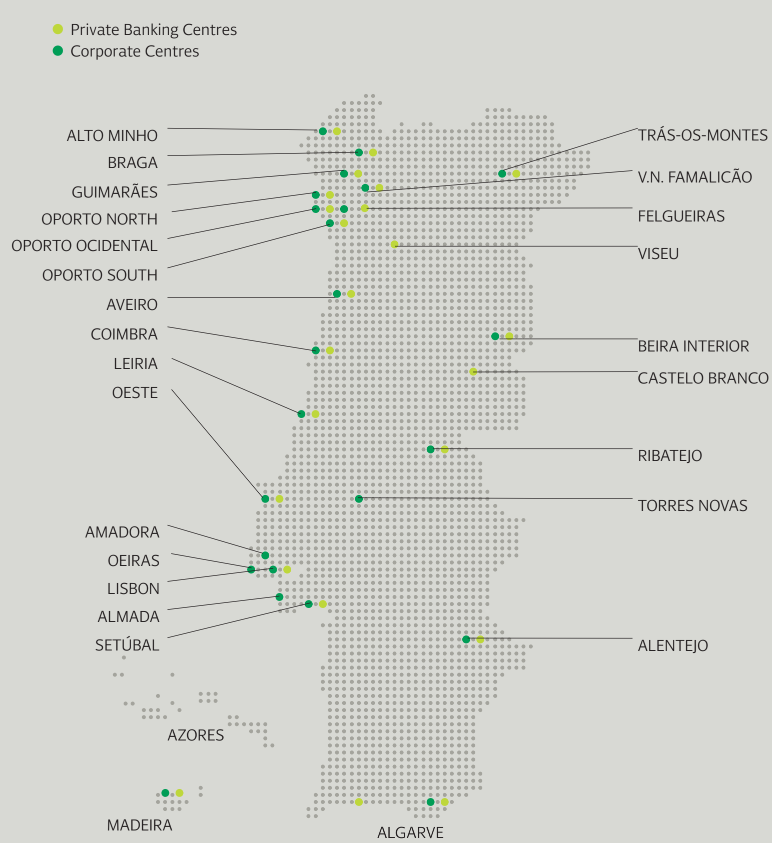
9 Representative Offices:

Toronto, Caracas, Rio de Janeiro, São Paulo, Lausanne, Cologne, Milan, Johannesburg and Shanghai.

3 Remittance Offices:

Newark (3)

In Portugal, BES Group operates through a retail network of 734 branches, complemented by 22 Private Banking Centres and 26 Corporate Centres.



2.3.2 Human Resources

In the course of 2009 the Banco Espírito Santo Group pursued its policy aimed at valuing its human resources as an asset in which it permanently invests. Investing in its employees means developing their skills, providing them training and fulfilling their expectations, in a constant compromise with the company's objectives.

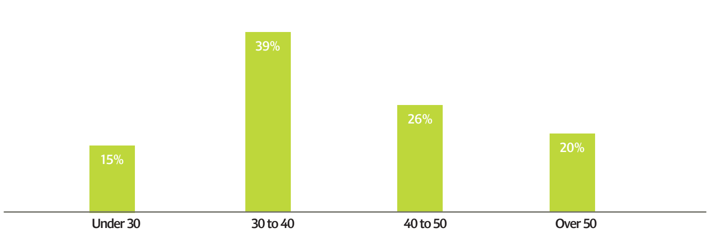
On December 31st, 2009, BES Group had 9,359 employees distributed by four continents. Of these, 7,796 (83.3%) worked in Portugal and 1,563 (16.7%) were based abroad.

Workforce geographical distribution	Dec.08	Dec.09
Portugal	7,942	7,794
Rest of Europe	717	724
Spain	602	601
UK	55	59
Other European Countries	60	64
Africa	433	463
South Ameria	168	191
North America	150	168
Asia	21	19
Total	**9,431**	**9,359**

The workforce in Portugal was slightly reduced due to a streamlining effort essentially conducted in the retail commercial units, which involved increasing the efficiency of processes at both front-office and back-office levels (including, among others, the reorganisation of client portfolios). In the international area there was an overall increase of 5% in the number of employees, which was particularly significant in Angola and Brazil, and in the latter focused on Investment banking.

The average age of the staff slightly increased in 2009, to 39 years, from 38.3 years in 2008. This was due, on the one hand, to the significant reduction in the number of temporary workers, and on the other to the fact that significantly less employees retired in 2009 than in the previous year.

Workforce Age Structure



Despite this small increase in the workforce's average age (+0.7 years), BES Group continues to make an effort to rejuvenate and qualify its staff while continuously working to bond its younger employees showing high potential for further development. Moreover, it is important to stress that 79% of the new starters in 2009 were younger than 30, and almost all of them had university degrees.

As regards the level of qualifications, the percentage of university educated employees increased from 48.8% in 2006 to 53.3% in 2009.

Recognising that career management is a strategic driver of employee motivation and retention, BES Group has always sought to establish clear and objective criteria for staff admission, advancement and promotion.

On the one hand, an individual appraisal system measures individual performance aligned to business objectives. On the other, the Objectives and Incentives System, which assesses the performance of the various structures and employees against the objectives established for each department, permits to evaluate teamwork performance. Both systems are vital for business success.

In addition, the Group has developed a broad-based and innovating training programme that covers the needs of all its employees (the Sustainability Report, available at www.bes.pt, provides comprehensive information about this programme). One of the most important initiatives taken in this area concerns the "BES University" project, which is supported by partnerships with renowned universities and institutes and relies on the active involvement of BES' senior management in the design and execution of all its programmes and actions. This project makes a clear bet on two fundamental groups of people: (1) young graduates with high potential and (2) employees with significant professional expression but no degree. These two groups are addressed by two different programmes: the Executive Master's degree in Management & Banking and the Banking Management Degree.

2.4 The BES Shares

Main Stockmarket Indicators		31/12/2008 Reported Figures[1]	31/12/2008 Adjusted Figures[2]	31-Dec-2009	YoY Change of Adjusted Figures
Main Stockmarket Indicators					
01. No Shares Outstanding	(thousand)	500,000	792,729	1,166,667	47.2%
02. Weighted Average of Shares Outstanding [3]	(thousand)	500,000	792,729	1,000,000	26.1%
03. Last Closing Price	(euro)	6.69	4.22	4.57	8.3%
04. Market Cap (euro million)	(01x03)	3,345	3,345	5,332	59.4%
Consolidated Financial Data (Year End Data)					
05. Equity Attributable to Shareholders [4]	(euro million)	4,499	4,499	6,655	47.9%
06. Equity Attributable to Ordinary Shares [5]	(euro million)	3,899	3,899	6,055	55.3%
07. Net Income	(euro million)	402.3	402.3	522.1	29.8%
08. Net Income Attributable to Ordinary Shares	(euro million)	368.8	368.8	488.6	32.5%
09. Gross Dividend of Ordinary Shares	(euro million)	80.0	80.0	163.3 [6]	104.2%
10. Pay Out Ratio of Ordinary Shares (%)	(09/07)	19.9	19.9	31.3	11.4p.p.
Per Share Data					
11. Book Value (euro)	(06/01)	7.80	4.92	5.19	5.5%
12. Net Income (euro)	(08/01)	0.74	0.47	0.42	-10.6%
13. Gross Dividend (euro)	(09/01)	0.16	0.10	0.14	40.0%
Price as Multiple of					
14. Book Value PBV	(03/11)	0.86	0.86	0.88	-
15. Net IncomePER	(03/12)	9.07	8.98	10.88	-
Price Return On					
16. Net Income (%)	(12/03)	11.03	11.14	9.19	-
17. Dividend (Dividend Yield) (%)	(13/03)	2.39	2.37	3.06	-

(1) As published in the 2008 Annual Report
(2) Share price adjusted by capital increase. Conversion factor: theoretical share price post capital increase (EUR 3.49)/share price pre capital increase (EUR 5.54) = 0.63073749355 (Source: Bloomberg)
(3) Average number of ordinary shares weighted by permanence time after the capital increase
(4) Capital+Preferred Shares + Emission Premium - Treasury Stock + Other Reserves and Retained Earnings + Fair Value Reserves + Net Income for the year
(5) Excludes Preferred Shares
(6) Proposal to be submitted to General Meeting of April 6th 2010, of a dividend of 0.14 euros per share, payable on all existing shares at the end of the year.

On December 31st, 2009 the share capital of Banco Espírito Santo was EUR 3.5 billion, represented by 1,167 million ordinary shares with the nominal value of EUR 3 each, listed on the NYSE Euronext. BES Group also has 600,000 non-voting preference shares with a nominal value of EUR 1,000 each issued by its subsidiary BES Finance, Ltd and listed on the Luxembourg Stock Exchange.

In 2009 the Group concluded a EUR 1.2 billion rights issue, which, despite the adverse scenario surrounding the international banking sector and the capital markets during the first quarter, was an absolute success. The Bank's solvency levels were reinforced as a result of this capital increase, placing BES among the best capitalised banks in Iberia, and giving it an important competitive advantage to pursue a path of sustained activity growth at both domestic and international level.

The capital increase was approved at the General Meeting held on March 16th and concluded on April 15th. Subscription reached 138.9%, reflecting the strong demand for the BES shares on the capital markets as a recognition of the strategy consistently pursued by the Bank.

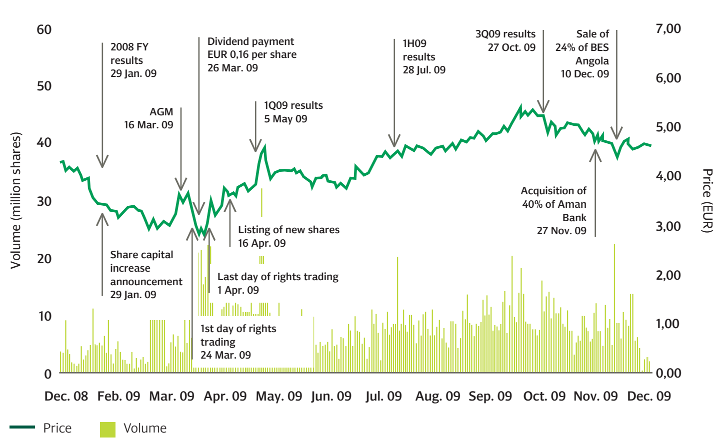
BES Shares performance

The financial crisis initiated in mid-2007 continued to have a negative impact on the performance of the banking sector during the first quarter of 2009. At the beginning of March the Dow Jones 600 Banks index, which tracks the performance of the 55 largest European banks, came as low as losing 40% since the start of the year. However, by the beginning of the second quarter this trend had already been reversed, with this index strongly rallying to close the year gaining 46.9%.Likewise, in Portugal, following a period of negative performance during the first quarter, the PSI-20 index went back to positive ground, and at year end had risen by 33.5%.

The BES shares had a positive performance in 2009, closing at EUR 4.57 in the last stock exchange session of the year, a 8.3% increase in the 12 months. Between January and April the price of the BES shares was penalised by the declining prices of the financial sector, while also being under pressure since the announcement of the capital increase until its conclusion. These factors explain the increased volatility of the BES shares, with a minimum price of EUR 2.77 in March and a maximum of EUR 5.30 in October (closing prices).

The average number of BES shares traded per day in 2009 was 2,066 thousand, which corresponds to an average trading volume of EUR 8.4 million.

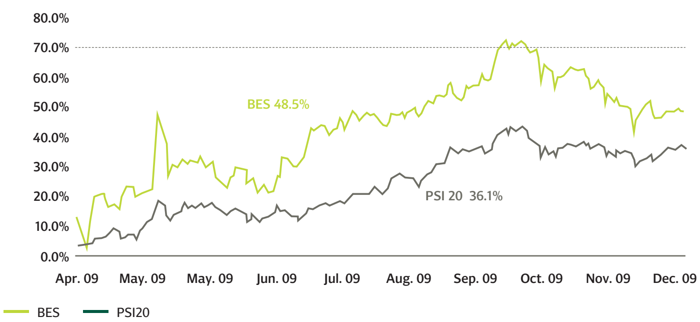
BES share price performance in 2009



Source: Bloomberg

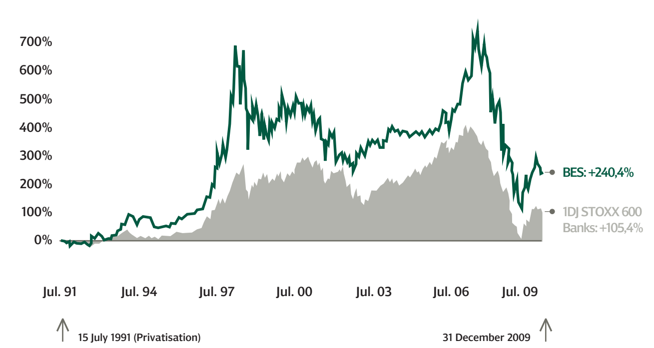
From the last day of trading rights (April 1st, 2009) to the end of the year, the BES share price rose by 48.5%, surpassing the performance of the PSI20 index by 12.4%.

BES share performance vs. PSI20 index
(From April 1st to December 31st 2009)



Source: Bloomberg

From a long term perspective, BES's shares consistently outperformed the European banking sector, a performance that translates the strategy followed by the Bank since its privatisation. In fact, since the BES shares were first listed in 1991, when the Bank was privatised, their price has gone up by 240.4%, which compares with an increase of 105.4% of the sector over the same period, as measured by the Dow Jones Stoxx 600 Banks index.



Source: Bloomberg & NYSE Euronext

The Bank's price earnings ratio (PER) was 10.9 at the end of 2009 while it was trading at 0.88 x the book value (as measured by the PBV ratio), which compares with 9.07 and 0.86 respectively, at the end of 2008.

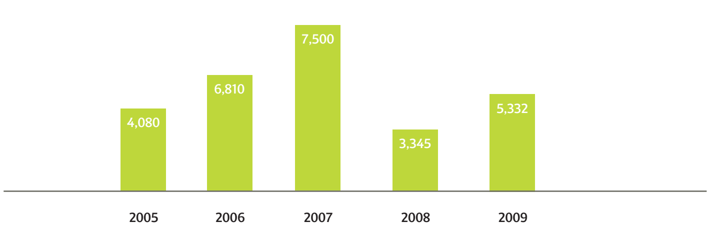
Stock market capitalisation

As a result of both the rights issue and the rise in the share price, BES's stock market capitalisation increased significantly in 2009: at the end of the year BES had a market capital of EUR 5,332 million, which compares with EUR 3,345 million at the end of 2008. Among the Iberian medium-sized banks, BES ranks In the 3rd place at the end of 2009.

Dividends

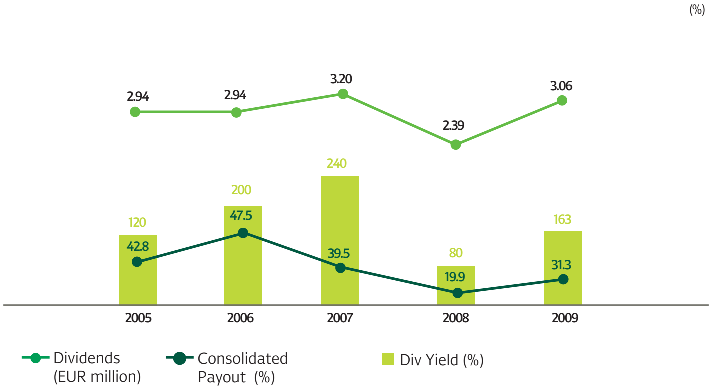
As described in the 2009 proposed earnings distribution, BES's Board of Directors will submit to the General Meeting a proposal to pay a gross dividend per share of EUR 0.14, which corresponds to a consolidated pay-out ratio of 35.4% based on recurrent net income (i.e., adjusted for extraordinary items), or 31.3% if considering stated net income (i.e., not adjusted for extraordinary items). Considering that in 2009 the Board of Directors submitted to the General Meeting a proposal to increase the Bank's share capital, the proposal for the distribution of the 2008 net income implied a payout ratio of 19.9%. In view of the recovery of the Bank's results in 2009, but also taking into consideration the uncertainty surrounding market and macroeconomic conditions, and the need for the maintenance of high solvency levels, the total amount of dividends proposed by the Board of Directors for distribution is EUR 163 million which represents an increase of 104% when compared to the amount distributed in 2008 (EUR 80 million). The dividend yield (gross dividend per share/share price) increased from 2.4% in 2008 to 3.1% in 2009.

Evolution of BES Market Capitalisation EUR million



Evolution of Dividends EUR million

(%)



BES Share in Stock Market Indices

BES shares are listed on the NYSE Euronext and are part of several indices (see table for the most significant).

Index	Bloomberg Ticker	% Weight in (%)
Euronext Lisbon PSI Financials	PSIFIN	41.784
PSI-20	PSI20	10.289
PSI Geral	BVLX	7.268
Dow Jones Euro STOXX Mid (Price)	MCXE	0.756
WT International Financial Sector	DRFIV	0.541
Bloomberg Europe Banks & Financial Services	BEBANKS	0.535
Dow Jones Euro STOXX Banks (Price)	SX7E	0.525
Bloomberg EMEA Banks	BEUBANK	0.437
WT International Midcap Dividend	DIMIV	0.424
Bloomberg European Financials	BEFINC	0.404
Dow Jones STOXX Mid (Price) – EUR	MCXP	0.391
Euronext-100	N100	0.330
Dow Jones STOXX 600 Banks	SX7P	0.285
WT Europe Dividend	DEBIV	0.179
Bloomberg Banks	BWBANK	0.169
Bloomberg European 500	BE500E	0.089
Dow Jones EURO STOXX (Price)	SXXE	0.092
Bloomberg European 500	BE500	0.089
Bloomberg World EMEA	BWORLDEU	0.070
Dow Jones Stoxx (Price)	SXXP	0.046

Source: Bloomberg

BES is since September 2007 included in the FTSE4Good Index Series, in which is still the only Portuguese bank. BES' inclusion reinforces its positioning as a socially responsible institution while providing independent recognition for its management model based on sustainability criteria.

Shareholder Structure

Banco Espírito Santo has had a stable shareholder structure since 1992. Espírito Santo Financial Group and Credit Agricole hold together 50.81% of the share capital. Banco Bradesco currently holds a stake of 6.05%, which it increased in the first half of 2009 from 3.05% in 2008. The pension funds of companies of Portugal Telecom Group hold 2.62%. BES's free float is currently 40.5%. Except for Bradesco, all other main shareholders maintained the same participation in the Bank as in the previous year.

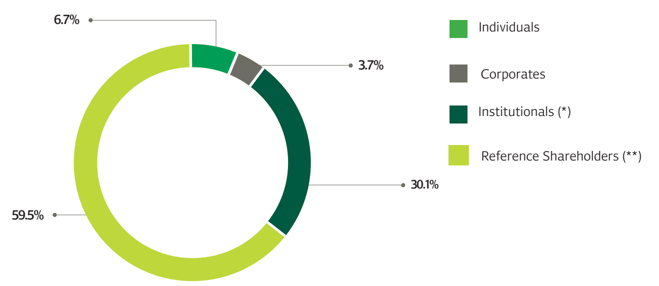
Main shareholders as of December 31st, 2009:

Shareholders	% of Ordinary Shares 2008	% of Ordinary Shares 2009
BESPAR — Sociedade Gestora de Participações Sociais, S.A.	40.00	40.00
Crédit Agricole, S.A.	10.81	10.81
Bradport, SGPS, S.A.(1)	3.05	6.05
Credit Suisse Group	2.70	-
Previsão - Sociedade Gestora de Fundos de Pensões, S.A.(2)	2.62	2.62

(1) Firm incorporated under the Portuguese laws, wholly owned by Banco Bradesco (Brazil).
(2) The voting rights of this firm are attributed to Portugal Telecom

As of December 31st, 2009, the Bank had 25,015 registered shareholders and the following shareholder structure:

Shareholder Structure as of December 31st, 2009 (% of share capital)



(*) Refers to stakes held by asset management companies (e.g. mutual funds, pension funds, discretionary management), custodian banks, among other.

(**) Reference shareholders: BESPAR; Crédit Agricole; Bradesco (through Bradport); Portugal Telecom (through pension funds of associated companies).

Institutional investors have a weight of 30.1% in BES's capital structure, with individual and corporate shareholders accounting for 6.7 % and 3.7% respectively of the total.

In 2009 BES maintained active contacts with institutional investors, namely in meetings held within the various roadshows organised in the main European financial centres and North-American cities, participation in conferences organised by national and international investment banks, and other initiatives that permitted to uphold BES' reputation and interest in the Bank in the domestic and international markets in a difficult year for the financial institutions.

03 Strategy and Business Model

BES Group develops its activity supported by value propositions aimed at meeting the needs of its clients: companies, institutions and individual clients. Its decision-making centre is located in Portugal, which is also its main market of operation.

The historic links with Africa and South America, notably with Brazil, the internationalisation of Portuguese companies, the growing interdependence of economies, and the large communities of Portuguese nationals established across various continents have provided the basis for BES Group to expand its international structure, and to adapt it to provide relevant services to those communities, with a positive impact on overall activity.

In monitoring performance by business area, the Group considers the following operational Segments:

- Domestic Commercial Banking, which includes the Retail, Corporate, Institutional, and Private Banking sub-segments
- International Commercial Banking
- Investment Banking
- Asset Management
- Markets and Strategic Investments
- Corporate Centre

Each segment is supported by directly dedicated structures, as well as by the units of the Group whose activity is most closely related to each of these segments. These structures run individual and autonomous monitoring of each operational unit of the Group (from the an investment centre perspective) while the Executive Committee defines strategies and commercial plans for each Operating Segment.

As a complement to this, there is a second segmentation of activity and results according to geographical criteria, separating the performance of the units located in Portugal (Domestic Area) from that achieved by the units abroad (International Area).

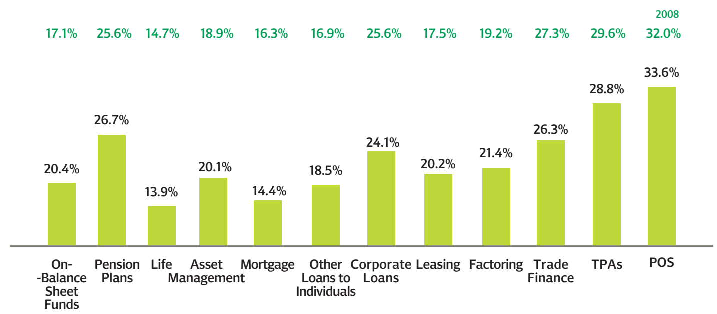
3.1 Domestic Commercial Banking

Since its privatisation in 1992 BES Group has followed a clear and consistent strategy of organic growth in the domestic market, developing an approach based on a multispecialist model. Through this growth strategy, backed by a solid franchise and strong commercial growth in the individual and corporate client segments, the Group has been able to achieve sustained market share gains. Its average market share more than doubled between 1992 and 2009, rising from 8.5% to 21.2%.

In 2009 the Group's overall market share increased by 0.5pp. While expressive gains were obtained in strategic areas (namely On-Balance Sheet Customer Funds, Asset Management, Leasing and Factoring), very significant market share levels were maintained in priority business lines (such as Pension Plans, Corporate Credit, Trade Finance, EFTPOSs (Electronic Funds Transfer at Point Of Sale) and Brokerage).

Average Market Share

Average Market Share



3.1.1 Retail Banking

The specialisation of the commercial approach towards greater focus on the clients' financial needs led over the years to the creation of distinctive value propositions in retail, namely targeting the affluent segment (BES 360), the segment of small businesses and independent professionals (Small Businesses), and individual retail clients (Mass Market).

Distribution capacity has been one of the key factors for the reinforcement of a competitive position in retail. The process of reinforcing the branch network in national territory included since 2006 the design of new formats that are both more efficient and more flexible – smaller branches and assurfinance onsite branches (in partnership with insurance agents within the scope of the Assurfinance programme). At the end of 2009 BES Group had a domestic network of 734 branches, including 40 assurfinance onsite branches resulting from partnership with insurance agents within the scope of the Assurfinance programme.

A total of 116,000 new clients were acquired in 2009, as a result of coordinated action between the branch network and the main client acquisition channels, in particular the Assurfinance and cross-segment programmes. Two points in particular deserve a note: the increasingly high pace of client acquisition levels as the year progressed, and the strong growth achieved in the affluent segment (new client acquisition levels increased by more than 29% year-on-year).

Moreover, the Retail activity was characterised in 2009 by a remarkable growth of commercial productivity levels, translated in an increase of 30% in sales per employee vis-à-vis 2008, as well as by an expressive increase in the production of the main product families, reflecting increased clients' interest on BES products and services.

Assurfinance and Bancassurance

The Assurfinance programme resulted from a partnership established between BES Group and Companhia de Seguros Tranquilidade with the objective of fuelling client acquisitions among Tranquilidade clients that are not BES clients. This agreement allows the Tranquilidade agents to offer their clients a wide range of financial products (insurance and banking products) designed to meet their needs.

The Assurfinance programme mobilises some 2,000 agents which in 2009 attracted around 24,000 new clients to BES. Moreover, the T-card, which links BES' financial offer with Tranquilidade's insurance offer, is an important customer loyalty enhancing tool, with approximately 12,000 cards placed in 2009.

These results stem from the cross selling and cross segment initiatives developed in 2009, such as: (i) the T-Card promotion (payment on credit permitted) for Auto Insurance holders, (ii) increased focus on selective client acquisition and bonding, particularly in the BES 360 segment, and (iii) expanding the available offer, namely with saving and investment products.

The Bank's client acquisition capacity was also further reinforced by the introduction of a new concept of cooperative distribution, the "assurfinance on-site branches", of which there were 40 by the end of the year.

In Bancassurance, BES Group relies on the offer of BES Seguros, BES Vida and Tranquilidade, which supply insurance products and services to the Group's main commercial areas, especially Retail, but also Corporate, Institutional, and Private Banking.

Bancassurance has been achieving significant results over time. 2009 was another year of good performance, both in the traditional product range and in new product lines designed to address the current economic context, including, among others, the launch of an unemployment insurance policy.

In overall terms, particularly strong growth was achieved in the placement of Auto Insurance (+50% YoY), Health Insurance (+11%), and Risk Life Insurance, especially in its higher value formulas covering disability and serious illness.

BES 360: excellence in financial counselling and customer service

The BES 360 service is a reference proposition for the affluent segment, featuring high quality standards, permanent monitoring by a dedicated specialised account manager and an exclusive offer and solutions adapted to these clients' specific requirements.

BES 360 offers a financial planning tool, the "360 Map", which traces the clients' entire financial life in order to map out the best way to achieve their financial objectives, subsequently producing a recommendation concerning the investments that best suit their profile. This is a pioneering service in the Portuguese market, which, while offering considerable advantages to the customer, further reinforces BES Group's already strong competencies in the area of financial advisory services. By the end of 2009, approximately more than 90,000 clients had already tried a session of the 360 Map, and of these, more than 75% would strongly recommend it to a colleague or relative. These results attest to the uniqueness of the offer and service level provided by BES to this segment.

During the year, a number of strategic initiatives were taken to further reinforce the value proposition offered to the 360 segment:

- reinforcement of the network's reach: the number of 360 Centres – specialised units uniquely prepared to deliver a high quality service to the affluent segment in dedicated areas– was increased to 35;
- raising quality standards: establishment of quality commitments aimed at reaching excellence in customer service by ensuring a strict and dedicated professional stance, effective problem solving, and proactivity in proposing the best solutions for the needs of each client;
- launch of the BESnet Trading Platform: this is an innovative, user friendly and easy to navigate solution for stockmarket trading that combines a wide range of functionalities in a single interface, with an attractive design and a variety of supporting information tools (news, commented technical analyses, fundamental analysis, risk analysis and analysts consensus);
- launch of a campaign to build up the value of the 360 brand: the campaign banked on the worth, experience and commitments of the BES360 service, renewing the incitement to existing customers and customers from other banks to reinforce their engagement with BES, and using live testimonies from real BES 360 clients, namely Margarida Pinto Correia, António Câmara, Henrique Sá Pessoa and Katia Guerreiro, chosen not only because they are personalities well known to the public and of recognised professional merit, but because their lifestyle and personal experience are representative of the segment targeted by the campaign.

The number of new BES 360 clients grew by 29% over 2008, sustaining the growth of the affluent client base.

The performance of this segment is particularly important in a market context where liquidity is a pressing issue. Representing more than 50% of Retail's total customer funds, the segment has been contributing to the growth of BES Group and constitutes a stable basis for its funding.

In the affluent segment, BES Group also operates through BEST – Banco Electrónico de Serviço Total. With investors once again more prone to subscribe financial products linked to the performance of capital markets (naturally to the detriment of more conservative products such as term deposits), there was a significant increase in the amount invested by clients in the Bank's wide offer of investment funds (ca. 2,000 funds). Online trading of securities grew substantially in the second half of the year in terms of the volume of transactions carried out, in part due to the simplification of the price list for stock market transactions. According to the Portuguese Securities Market Commission (CMVM), in 2009 BEST consolidated its leading position, both in the distribution in Portugal of foreign investment funds, with a market share of 24% (recently released data relative to 1Q09) and in on-line derivatives trading, with a market share of 47% (accumulated data in October 2009). The new international wholesale business line, created at the beginning of the second quarter and supported by an autonomous operational structure, has already gained several clients and a sizeable volume of assets under custody. Customer assets under management (including the International Wholesale business) reached EUR 1,467 million, up by 25% year-on-year, while net income for the year totalled EUR 4.6 million, which corresponds to a 92.8% increase when compared to 2008.

Small Businesses: segment maintains sustainable growth

In 2009 BES Group reinforced its positioning in the small businesses segment, a market characterised by a high level of competitive pressure. This was achieved by focusing on the following main aspects:

- reinforcement of client acquisition and growth targeting initiatives in strategic segments;
- credit based on a discriminating approach to the clients' risk profile, tightening control of risk and overdue loan levels;
- focus on the partners in the client firms as a potential source of growth in the segment, particularly in terms of funding;
- intensification of measures intended to fuel the segment's overall profitability.

In an adverse market context, it was possible to increase funding from both Partners and Strategic Sectors. This growth was supported by the continuous enhancement of the value propositions designed for the segment, with new offers being launched during the year, namely for the health sector and the fuels business.

The segment's profitability was maintained essentially through a continued practice of price discrimination and optimisation according to the risk level of the various groups of clients, while simultaneously seeking to increase the quality of the guarantees provided as well as the weight of clients with higher ratings.

As a result, it was possible to achieve significant growth in the higher rated credit (+4% YoY), despite a general decline in the market in loans to the Small Businesses Segment.

As regards the offer to the segment, several products were launched during the year, especially in the area of Credit (BES Negócios loan, Health Factoring and Direct Factoring).

Mass Market: greater focus on the client, increased commercial proactivity

The work developed during the year mainly aimed to enhance two strategic activity guidelines: greater focus on the client and increased commercial proactivity.

As regards the first, several initiatives were taken to improve service quality and maintain a seamless flow of innovation, taking into account the client's life cycle:

- Launch of innovative saving solutions, namely the "Rendimento CR" Account, supported by mass media campaigns featuring Cristiano Ronaldo, which not only achieved high public awareness but also contributed to a significant increase in the segment's customer funds.
- Launch of innovative insurance solutions adapted to the current economic context, including an unemployment insurance policy.
- Launch of innovative client acquisition solutions, namely a holiday package promotion, which gave more than 20,000 Portuguese families the possibility to spend time in national hotel chains.

As to the initiatives taken to increase commercial proactivity, these included the redefinition of training plans, the full revision of the branches' working tools, making them simpler, more flexible and integrated to guarantee full focus on the client, seeking to homogenise commercial productivity, and stressing front-office proactivity. The proactive exploitation of commercial opportunities within a multi-channel context (branch, internet, telephone, texting, mailings) was also reinforced.

In the Autonomous Region of the Azores, BES Group operates through Banco Espírito Santo dos Açores. During the year the Bank pursued its strategy aimed at increasing its market share and attracting new clients. Hence in 2009 customer deposits increased by 6.2%, while customer loans grew by 4.3%, with mortgage credit rising by 8.4%. Net assets reached EUR 577.1 million (up by 16.0% YoY), and net profit totalled EUR 4.2 million (down by 25.2% YoY). As to other important aspects of the activity developed in 2009, the Bank signed a number of protocols with companies and institutions, and established a partnership with the Regional Government of the Azores, which led to various regional public services opening accounts with the Bank.

The consolidation of segmented approaches thus supported the growth of Retail Banking:

- Strong focus on attracting customer funds: total customer funds grew by 7.9% year-on-year, underpinned by reinforced household saving levels matched by the launch of innovative offers (complemented with several campaigns). Bancassurance achieved strong results once again, with Pension plan production increasing by 21.5% year-on-year, reinforcing BES Group's leading position in this product with a market share of 28.4% in 2009.
- Selective growth of credit to individuals and small businesses: this translated into a reduction in the loan portfolio of 2.8%, though improving along the year, with mortgage production showing a 2.2-fold increase from the first to the last quarter of 2009. Affluent clients (lower risk) accounted for 50% of new mortgages and 37% of new consumer credit in 2009.
- Sustained increase in cross-selling: product sales increased by 22% year-on-year (progressively higher growth rates along the year: +17% year-on-year in 1H09 and +26% YoY in 2H09), particularly relevant in product families that foster clients' loyalty levels, such as service accounts, salary and expenses domiciliation and life and non life insurance.
- Seamless flow of innovative product and service launches, supported by advertising campaigns with high recognition levels. The products and services launched in 2009 took into consideration the economic context, and included: (i) an unemployment insurance policy; (ii) a campaign offering the cash-back of 3% of new salary payments domiciled with the Bank; and (iii) a campaign offering holiday packages to clients with the highest loyalty levels. BES' Group's value proposition continued to be supported by high impact advertising campaigns. According to surveys conducted by independent entities, BES Group positioned in the two first places of the TV Proven Recognition per Advertisement ranking, also leading the ranking of total advertising top of mind recognition.

3.1.2 Private Banking

BES Group develops its private banking activity in Portugal through a network of 22 Private Banking Centres. The offer for this segment is based on an integrated vision of the client, delivering investment solutions tailored to meet their financial and asset management needs. Building a relationship based on trust is essential in this activity, and this is ensured by private bankers with high technical and relational competencies. The steering guidelines of the private banking offer are independence in advisory services, asset allocation propositions adjusted to the clients' risk profile, and excellence in customer service.

In 2009 BES Group made a significant revision of its approach to the private banking segment, which entailed the sub-segmentation of clients according to their different needs and expectations.

In addition, the network of Private Banking Centres was also subject to a revision process aimed at adapting the geographical reach to the economic reality of each region and to BES' branch network.

At commercial level, internal cross-selling policies were pursued, which included increasing coordination among Private Banking Centres, Corporate Centres and various entities of BES Group, namely BES Investimento and BES Vida, and reinforcing external customer funding, a strategic driver of ambitious growth and profitability targets.

Following the high demand for on-balance sheet products early in the year, in line with the macroeconomic environment, a progressive move towards greater diversification in the second half of the year lead to a recovery in private banking off-balance sheet funds .

The adjustments made in the commercial approach, coupled with the gradual recovery trend in the markets since the beginning of the second quarter drove a significant increase in total assets under management and custody, which at year-end already surpassed EUR 7.6 billion (+7.6% YoY).

Finally it should be stressed that, already in 2010, the Euromoney magazine ranked Banco Espírito Santo's private banking as the best private banking in Portugal, translating the recognition of the excellence of the service provided to this segment of clients.

3.1.3 Corporate Banking and Institutional Clients

Always steered by its commitment to add value to the activity of the Portuguese companies, either through the offer of financial products and services, or through the advisory services provided, Banco Espírito Santo Group's teams specialising in corporate banking provide a high quality service characterised by a permanent search for the best solutions for each client. The key notes of this service are support to the Portuguese companies' investment and internationalisation, and constant stimulus to innovation.

BES Group strongly contributes to promote the Investment Support Programmes, jointly created with public agencies. An example of these partnerships are the subsidised "PME Investe" credit lines, under which BES has to date approved loans totalling EUR 1,417 million (EUR 815 million in 2009) to more than 6,500 firms. In 2009 the Bank once again confirmed its leading role within the scope of the "PME Investe IV", with a market share of 25% in credit lines to the Exporting Companies.

As regards BES's support to the internationalisation of the Portuguese companies, the major focus has been put on facilitating access to markets considered strategic, i.e., markets showing opportunities for business and where the Group has the capacity to provide support, either through a direct presence or through partnerships with local banks. To this end, the Bank acts upon three main areas:

1. Organisation of initiatives to inform and dynamise the business community:

- Joint organisation (with the AIP and AICEP) of the Forum Portugal Exporter, the largest and most important event in Portugal dedicated to support the internationalisation of the Portuguese SMEs, with ca. 1,200 companies participating in its 2009 edition.
- Participation in the "ABC Markets" initiatives promoted by the AICEP, which involved more than 500 business persons.

2. Promotion of initiatives in strategic markets:

- Business Missions programme, organised by the Bank since 2006. In 2009 the Bank conducted an important Mission to Brazil (in September), having taken part, together with other Portuguese companies, in the Algiers and Tripoli International Trade Fairs.

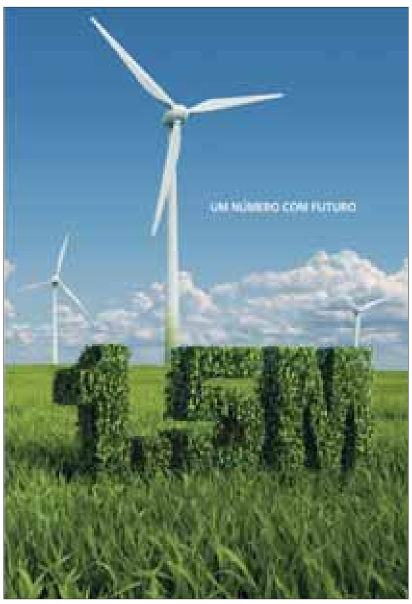
3. Delivery of a service of excellence:

- The International Premium Unit, which specialises in supporting and monitoring companies with the potential to expand abroad and develop external trade, and works in coordination with the Group's international units, has permitted to support companies in various geographies, providing a unique service in the Portuguese banking sector.

The recognition enjoyed by BES as the reference bank in supporting the internationalisation of the Portuguese companies was confirmed by its nomination, for the 4th consecutive year, as "The Best Trade Finance Bank" in Portugal, by the Global Finance Magazine. In addition, BES also reasserted its leading position in the trade finance domestic market, with a share of 26.3%. Finally, it should also be stressed that, mainly as a result of BES's support of the exporting companies, fees and commissions on documentary credits increased by 73.5%.

As regards the Bank's endorsement of innovation, BES strongly invests in actions aimed at stimulating an enterprising spirit within the Portuguese society. The growing success of the BES National Awards for Innovation (CNIBES) – the number of applicants keeps rising and the quality of the applications is increasingly high – has already permitted to distribute prizes worth EUR 1,755 thousand to the 28 winners in the various categories subject to competition, over five editions. Moreover, the fact that relevant national institutions are constantly requesting to join this initiative is also revealing of its importance as a means of promoting links between the academic world and the business community. This success is in great part due to the divulgation in 2009 of the success cases in Innovation in Portugal, either through the various road shows organised by the Bank across the country, or through the media (radio and print media, namely on the BES Innovation Supplement).

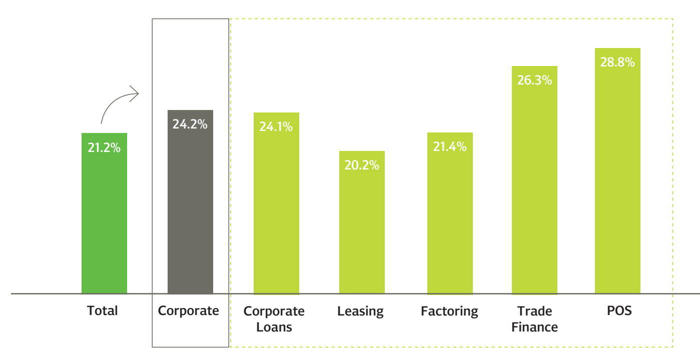
BES Group uses another two vehicles for endorsing innovation in Portugal: partnerships with the main innovation and entrepreneurship centres in Portugal, under which it supports innovating start-ups through an offer adapted to these companies' life cycle; and its venture capital subsidiary Espírito Santo Ventures, which specialises in promoting innovative companies with a high growth potential.



In line with its own tradition of innovation in financial products and services, in 2009 BES launched a ground-breaking solution in the Portuguese market. Being aware that the delays and uncertainty surrounding customer receivables are one of the main concerns of companies, the Bank created the "BES Express Bill" service, a revolutionary solution in B2B payment systems that will improve confidence among economic agents and solve many of the treasury problems that today affect many firms. This service is 100% electronic, available through the internet (BESNetwork) and SMS and email messaging, with BES's guarantee that those who say they pay, will pay, and those who expect to receive, will receive.

Also in 2009 BES consolidated a pioneering internet banking service that still has no equal in the Iberian market: BESNetwork is an internet banking portal designed for companies doing business in Portugal, Spain, or in both countries, through which companies may access their accounts and carry out transactions in the two countries through a single login. BESNetwork is already used by more than 47,000 companies.

BES stronghold on the corporate segment comes from the distinctiveness of its value proposition



In specialised credit (Leasing and Factoring) 2009 represented the first year of activity following the merger by integration of Besleasing e Factoring into BES. The year's results confirm that the integration resulted in a very efficient approach to the business, with market share gains being achieved in both leasing (from 18% to 20%) and factoring (from 19% to 21%).

Corporate Banking and Institutional clients are divided into three sub--segments so as to better address their specific needs: Middle-market (medium-sized companies with turnover of between EUR 2.5 million and EUR 50 million), Corporate Banking (national companies or multinational companies operating in Portugal with turnover above EUR 50 million), and Municipalities and Institutional customers.

Middle Market

In this important business area, BES's consolidated business model and adequate geographic presence (26 Corporate Centres and 8 Corporate Centre delegations) allow the bank to be close to its clients and know them well (key factors of the commercial approach), and therefore to take fast decisions and maintain a consistent credit policy, both qualities being valued by the clients and permitting to cement long-standing partnerships.

Commercial proactivity, another important driver in this segment, combined with a competitive offer and a service of excellence – with the back-up of teams specialising in different areas of corporate banking – permit to find adequate financial solutions for each specific client. Despite the difficult market conditions, this approach has allowed the Group to attain positive results in 2009:

- financial advisory services, an investment banking service for medium-sized companies, lifted revenues by 20% year-on-year;
- in the area of human resources solutions, sales of Risk Life Insurance products performed well: the respective portfolio grew by 49%, with revenues increasing by 68%;
- the cross-selling of non-life insurance products continues to provide a very good complement to the banking offer, leading to revenue growth of 15%;
- renting continues to provide an excellent solution to solve companies' car fleet needs. At a time of economic retraction and cost-cutting, this business area posted a 23% increase in results attributable to the middle market segment;
- outside the financial area, the services provided under a partnership with Multipessoal, namely staff recruitment, training, outsourcing and placement of temporary workers, permitted to diversify revenue sources while meeting the clients' new needs. In 2009 Multipessoal posted a year-on-year increase in revenues of 112%.

The constant updating of a database of potential customers with a good risk profile continues to prove a priceless customer-acquisition tool, leading to the acquisition of 562 new active clients in 2009. Customer acquisitions accelerated in the last four months of 2009, opening up good prospects for 2010.

Cash management services, such as the "BES Express Bill" service, EFTPOS, the payment of employee salaries and suppliers, and leasing, also greatly contributed to foster customer loyalty.

Corporate Banking

Corporate clients are monitored by commercial teams specialised by sectoral clusters, based in Lisbon and Porto. The segment is divided into three major areas: (i) Top Corporates; (ii) Large Companies; (iii) International Premium Unit.

The activity developed in the corporate banking segment relies on close cooperation with the area of investment banking, while strongly promoting the offer to national and international companies of trade finance services, cash management services using electronic means of payment, and cross-selling solutions that complement the traditional commercial offer. Banking income generated by the segment registered a significant year-on-year increase of 35.6%, thus giving a very positive contribution to total banking income growth.

To meet its objective of attracting new clients, the Corporate Banking intensified efforts, which were particularly targeted at good risk companies. As a result, more than 150 new companies became BES clients in 2009.

Through the skills and expertise placed at the service of the business community by the International Premium Unit, which specialises in supporting and monitoring companies with the potential to expand abroad and develop external trade, BES has also been increasingly strengthening its position as the bank of choice of companies in Portugal. As a result, a growing number of companies, namely multinational companies, have been using their subsidiaries in Portugal as a platform to enter other international markets, namely in the Community of Portuguese Speaking Countries.

Owing to its strategy focused on supporting the growth of Iberian companies and their expansion into new markets, the International Premium Unit, after one year only in activity, monitored in 2009 approximately 550 companies: 100 business conglomerates were permanently and fully managed directly by the Unit, and 450 SMEs were monitored by the Corporate Centres (Middle Market segment) to which the Unit provides advisory services on business internationalisation.

Thanks to its commercial approach, the Unit gave a significant contribution to BES Group's results:

- The 100 business conglomerates directly monitored by the Unit increased their financial involvement with the Bank by 29% over 2008, with the respective funds rising by 51%.
- Earnings from trade finance transactions increased by 62.5% year-on-year, boosted by the Unit's contribution.

The internationalisation strategy followed by BES Group, which permitted to enhance and cement its relationship with the Iberian and multinational companies in new markets through the provision of a customised and dedicated service, specialised by geographical areas, also underpinned this good performance, further reinforcing BES Group's position in the Corporate Segment.

Municipalities and Institutional Clients

Institutional Clients (municipalities, municipal companies, universities, public hospitals and social solidarity institutions) have the support of expert teams based in Porto, Coimbra, Lisbon, Setúbal and Faro. BES develops its activity with this segment through the extension of long-term loans for investment projects and the provision of cash management services through electronic means. On the other hand, the relationships established with these clients permit to develop client acquisition and cross-selling initiatives targeting the employees of these institutions.

In the area of regional development, BES has a leading position within the scope of the Ministry for the Economy's Finicia programme – Axis III as the financing bank of 69% of the protocols established with municipalities (66 protocols established so far).

As to social solidarity institutions, the Group has signed protocols with CNIS (The National Confederation of Solidarity Institutions) and with the União das Misericórdias Portuguesas (Social Solidarity Union), offering them preferential commercial terms. This bet on an area with an important weight in the national economy – the so-called "social economy" - has made Banco Espírito Santo the reference partner in this sector. In 2009 Banco Espírito Santo extended 70 loans to social solidarity institutions for an overall amount of EUR 50 million.

Taking advantage of the social solidarity institutions' close ties with the population, and with the objective of contributing to combat social exclusion while promoting a spirit of entrepreneurship, in the second half of 2009 Banco Espírito Santo created a Microcredit Office. This Office works in close coordination with the various social support networks, which are formed by city councils, associations for development, social solidarity institutions, professional schools, polytechnic institutes and universities. In its first year in activity the Microcredit Office analysed more than 130 projects, a significant percentage of which were approved.

3.2 International Commercial Banking

BES Group's International Commercial Banking activity is developed in markets with cultural and economic affinities with Portugal, and its expansion is essentially oriented to the South Atlantic Axis, namely to Africa (Angola and the Maghreb countries) and Latin America (Brazil). The Group's international presence is mainly focused on specific areas where it holds competitive advantages, exploiting markets and/or business areas with high growth potential, leveraging on the experience obtained, and in some areas the leading position, in the domestic market. Faced with the increasing globalisation and openness of the financial markets, BES Group's international expansion also reflects the need to obtain the economies of scale and operating efficiency gains afforded by a wider scope of operations. The Group's strategy is to serve local customers in target segments but also customers doing business on a trans-national scale.

Angola

In Angola BES Group operates directly in the local market through Banco Espírito Santo Angola, which provides a global service to individual and corporate clients.

In 2009 Banco Espírito Santo Angola maintained its growth dynamics while steadily asserting its position in Angola as one of the institutions with the best profitability and efficiency indicators in the local market. The Bank's performance continued to stem from a consistently implemented strategy focused on strength, confidence and the excellence of the service provided to the client, which, together with its support of cultural initiatives, has been acknowledged by prestigious international institutions. In fact, in the course of the year BES Angola received (i) the "Planet Bank" award from the International Committee for the Development of Planet Earth, coordinated by the UN via UNESCO (awarded to the banking institution which has distinguished itself the most in supporting the dissemination of messages on protecting the environment and sustainability), (ii) the "Best Foreign Exchange Provider Award 2009" and "Best Bank Award 2009" attributed for the second consecutive year by the Global Finance magazine, (iii) the "Best Bank in Angola 2009" award, attributed by the World Finance Magazine, and (iv) the "Best Capital Markets" award, from EMEAfinance.

BES Angola's commercial structure was reinforced in 2009, currently consisting of 34 branches, of which 21 located in Luanda, two corporate centres, a private banking centre and an investment banking office in Luanda.

In Retail banking BES Angola's activity is mainly directed to the affluent segment. Towards the end of the year the Bank implemented the direct channels, namely BESAnet, an internet banking service permitting to make inquiries and transactions online.

In Spain BES Group operates through a Branch, developing activities in affluent banking, corporate banking and private banking.

In affluent and private banking, the Branch focuses its offer on-balance sheet products. In corporate banking, the Group consolidated its integrated approach to companies in Iberia, launching an innovating service – the BESnetwork, an Iberian Portal for Companies – which permits to execute transactions through the internet in the same way, whether in Portugal, in Spain or between the two countries. The branch further developed its international business capabilities, thus improving the services provided to clients operating not only in Portugal but also in the other geographies where the Group is present. This also permitted to establish relations with high potential clients, while maintaining a very prudent stance in risk allocation and management.

During the year the branch made some restructurings at organisation level, namely in its area of risk analysis, while also reinforcing the commercial team and developing a very competitive offer of products. This included the launch of the CR 3.15% and CR 3.10% deposits, which were very successful in attracting new clients, also greatly benefiting from synergies with Portugal. Other initiatives to create an "Iberian Territory" included using the image of Cristiano Ronaldo for the first time in Spain. The BES brand attained maximum recognition levels, largely thanks to the campaigns "No sé donde estaré dentro de 3 años" ("I don't know where I'll be in three years") and "Lo que se dice de Ronaldo en Madrid" ("What they say about Ronaldo in Madrid").

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United Kingdom

BES's London Branch concentrates its activity in wholesale banking in the European market. As a specialised credit unit, the Branch acts with a high degree of selectivity, maintaining a conservative risk management policy. Global trade finance is an area in expansion: several operations were concluded during the year, greatly contributing to position BES as the most relevant bank in Portugal in terms of supporting international transactions.

In terms of wholesale funding, there was a substantial increase in fund raising, particularly through the issuance of Certificates of Deposit.

United States of America

Through Espírito Santo Bank, based in Miami, the Group develops international private banking activities in the American continent, where its main customers are the communities of Portuguese residents, particularly in Latin America. The bank's activity in 2009 was characterised by the improvement of the quality and selectivity of its loan portfolio, the containment of staff costs through a cutback policy, a decline in the cost of funding, and the continued growth of results generated by the broker/dealer, based on a diversified and strong offer of products and services and an effective interaction with the clients aimed at achieving their financial targets in a particularly difficult environment.

BES's New York branch concentrates its activity in wholesale banking, mainly in the US and Brazil. The branch has had a crucial role in terms of obtaining funds from American institutional and corporate clients, actively promoting the placement of the certificates of deposit programme (74% YoY increase) and commercial paper programme. The markets' adverse developments and continuous deterioration of the US economy required increased prudence in business and an emphasis on risk monitoring and management.

France

The Group's activity in France is carried out by Banque Espírito Santo et de la Vénétie. In 2009 the Bank continued to develop its traditional business lines concentrated in corporate banking, while launching into new activities, namely portfolio management (for which it purchased an asset management firm, Marignan Gestion), and private banking, setting up a structure for the purpose. In addition, the bank also provides financial services to the community of Portuguese residents in France who are BES clients in Portugal.

China

BES Group is present in Macao through Banco Espírito Santo do Oriente, whose activity is mainly focused on supporting the international expansion of Portuguese companies into the Asian markets. In 2009 the bank was particularly active in raising funds from local and regional clients, namely through the placement of a CD funding programme in Hong Kong, as well as in developing trade finance activities.

Cape Verde

The activity developed by the Group's branch in Cape Verde is concentrated on corporate banking and public/private sector investment in infrastructure (ports, roads, electricity and water) as well as on the tourism sector, where it mainly targets Portuguese companies with business links in these islands.

3.3 Investment Banking

BES Group's investment banking activity is developed by Banco Espírito Santo de Investimento (BES Investimento), whose main objective is to provide services to medium-sized and large companies, institutional clients, and in some specific segments, retail clients, in coordination with the Group's private banking area. BES Investimento offers a wide range of specialised products and services, including advisory services in mergers and acquisitions, access to transactions in the capital markets (equities and debt), brokerage and portfolio management services, structured finance, including project finance and acquisition finance, and management of private equity funds.

The bank's good performance in 2009 was largely driven by the international growth strategy pursued over the last years, focused on consolidating its presence in Spain, Brazil and the United Kingdom and selectively expanding into new markets, namely Poland, Angola and the United States. More than 60% of BES Investimento's activity in 2009, as measured by banking income, net profit and number of employees, was carried out outside Portugal

BES Investimento is set to assert a position as (i) a reference bank in Iberia, Brazil, the United Kingdom, Angola and Poland; (ii) a relevant player in the distribution of products in the core geographies, with privileged access to institutional investors in the world's main financial centres (London, New York and Hong Kong); and a relevant intervenient in project finance transactions in the transport infrastructure and renewable energies sectors, with a special focus on Europe and the Americas.

The implementation of this strategy allowed BES Investimento to reinforce its position in the domestic market, for which it once again received the prize for "Best Investment Bank in Portugal" awarded by the World Finance magazine. The bank upheld its leading position in mergers and acquisitions (by number and value of operations), being recognised by the Euromoney magazine as the "Best M&A Bank in Portugal" (Euromoney Awards for Excellence) and "Best Bank for M&A Advisory in Portugal" (Euromoney Real Estate Awards). In brokerage, BES Investimento also remained the market leader, significantly raising its market share (to 15.9%, from 11.7% in 2008), while continuing to lead reference transactions in its other business areas.

In Spain, BES Investimento aims to position itself among the 10 main local investment banks. Benefiting from an increasingly broad international presence and close coordination with the structures of Banco Espírito Santo in Spain, it has been developing great efforts to further its reach in the corporate segment, viewing the intensification of cross-border business and the development of capital markets, merger and acquisitions and project finance activities. Although the Spanish economy was severely hit by the crisis in 2009, BES Investimento concluded four large and important merger and acquisition operations, once again leading the Iberian M&A market by number of transactions. In Spain the bank reached 3rd position in the ranking of the Spanish brokerage market, having led and structured several major project finance operations, including the EUR 580 million financing of a 150 MW solar thermal park to be developed by Acciona, which was awarded the "Renewables Deal of the Year" prize by the Project Finance International magazine.

In Brazil, BES Investimento is intent of asserting itself as a local player with international expertise, operating in all areas of investment banking. In line with this strategy, the Bank has been consolidating its presence in the market, reinforcing its existing business lines and investing in the development of new ones, namely private equity, domestic private banking and asset management.

In 2009 BES Investimento led a number of project finance operations, namely two important ones that were distinguished by the Project Finance International magazine: the financing of the construction by Odebrecht Oil&Gas of two vessels for deep water oil exploration, respectively NORBE VIII and IX ("Americas Deal of the Year"), and the A/B loan financing of west stretch of the Rodoanel road project for the city of São Paulo, Brazil ("Global Americas Transport Deal of the Year"). With two important events planned for the coming years (the FIFA World Cup in 2014 and the Olympic Games in 2016), project finance activities are expected to maintain strong growth.

Also worth stressing in 2009 was the announcement of a partnership entered with Banco Bradesco to create a new private equity fund manager in Brazil to be held in equal parts by the two banks. The new company will start by raising a BRL 500 million fund to invest in buy-outs and expansion capital provided to medium-sized companies.

BES Investimento intends to expand its presence in the United Kingdom, which is currently concentrated in project finance and advisory serves to cross-border merger and acquisitions, creating for the purpose a platform for distribution of its products and services.

In the United States, the bank aims to develop project finance and other structured finance activities, and create a platform for distribution of capital market products, capitalising on (i) its business origination capacity in Brazil, due to its local presence in the country, (ii) the active strong capital market activities developed in the Iberian Peninsula; and (iii) the existing relationships with reference clients in the project finance area, in particular in the infrastructure and renewable energies sectors. In addition, BES Investimento also intends to expand its business origination basis into the Spanish speaking countries in Latin America.

The bank led 8 project finance operations, taking advantage of buoyant conditions in the US renewable energies market and in the Canadian social infrastructures sector. In addition, it also initiated merger and acquisition and capital market activities.

The bank's entry in Poland aimed to exploit the strong growth potential that exists not only in that country but also in Central Europe in general. Because it escaped recession, Poland is less debilitated than most countries in Europe and is therefore more likely to see the emergence of business opportunities for investment banking. Moreover, the country has under way a programme of privatisations, involving a number of large operations, and is also developing important infrastructure projects. In addition to developing its current activities – mergers and acquisitions, brokerage and project finance, BES Investimento is also set on creating new business areas in the Polish market, and is currently starting fixed income activities, which will be backed by a commercial origination team.

In project finance, the Bank led an important operation in the Polish market, which consisted in structuring and arranging the EUR 400 million financing for the A2 Motorway project.

3.4 Asset Management

Espírito Santo Activos Financeiros (ESAF) is BES' subsidiary for the asset management business, operating in Portugal, Spain, Brazil, Angola, Luxembourg and the United Kingdom. At the end of 2009 ESAF had total assets under management (off-balance sheet funds and CDO contracts) in excess of EUR 20.8 billion, corresponding to a YoY increase of 4.6%.

Mutual Funds

Total assets under management reached EUR 5,531 million at the end of 2009. The year was marked by a focus on permanent adjustment of the offer to market needs, leading to the launch of four new special investment funds - Espírito Santo Rendimento Fixo I, Espírito Santo Rendimento Fixo II, Espírito Santo Estratégia Acções and Benfica Stars Fund.

In Luxembourg, BES Group has five funds under management targeting clients with a wide range of risk profiles. At the end of 2009 the aggregate volume in these funds was EUR 702 million: (i) The ES Fund, which has 11 compartments (shares and bonds), reached EUR 354 million, due to the launch of three new compartments, respectively Espírito Santo Brazil, Espírito Santo Africa and Espírito Santo Trading Fund; (ii) The Global Active Allocation Fund, targeting individual clients and institutions, with volume of EUR 71 million; (iii) The Caravela Fund SICAV, made up of five compartments; (iv) The SICAV European Responsible Consumer Fund, which is sold in Portugal, Spain, Italy and Luxembourg and whose investments take into account ethical, environmental and social concerns; (v) and finally, the Espírito Santo Rockefeller Global – Energy Fund, crated under a joint venture between the Espírito Santo Group and the North-American Rockefeller fund manager to manage and sell a special investment fund exclusively dedicated to the energy sector.

Real Estate Funds

On December 31st, 2009 ESAF had an overall volume under management in real estate funds of EUR 1,263 million, which represents an increase of 11% when compared to the previous year. Assets under management were represented by 27 mutual funds, of which two - Gespatrimónio Rendimento and Espírito Santo Logística – are open-end and have a total volume of EUR 912 million. A new fund was launched during the year, the Fundo de Investimento Imobiliário Espírito Santo Arrendamento, a closed-end real estate fund for residential rental.

Pension Funds

The Portfolio Management service, designed for clients in the Private Banking and BES 360 segments, aims to obtain sustainable returns over the long run.

Assets under management (in national and foreign currency) totalled EUR 2,635 million at the end of the year, corresponding to a year-on-year increase of 34% driven by the rebound registered in the main markets.

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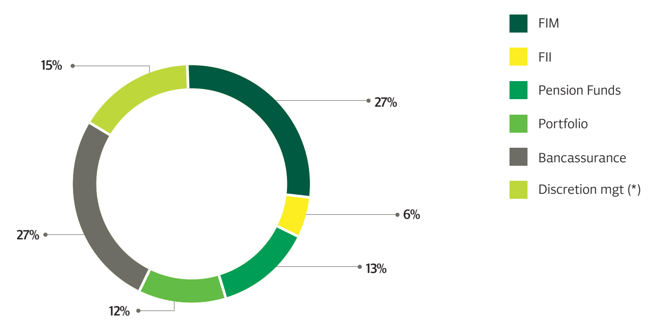
Asset Management: Product Breakdown



(*) Includes discretionary management of institutional, individual and other clients

3.5 Outlook for BES Group. Main risks and uncertainties

International fora in general point to a recovery of global economic activity in 2010. Backed by expansionary monetary policies, fiscal stimuli and recovering confidence levels, this recovery already started in 2009 and will tend to be more pronounced in the emerging economies, with the advancing economies registering more moderate growth.

However, there remains great uncertainty about the sustainability of the recovery, as shown by the moderation of investor optimism leading to a downfall of the main stockmarket indices at the beginning of 2010, the widening of credit spreads, and public accounts imbalances in most countries. Moreover, interest rates are expected to remain depressed, although it is expected a small increase in reference interest rates in the Euro Area as from the second half of the year.

Banco Espírito Santo Group will maintain its strategy of sustained growth based on the domestic market and on the expansion of its activities into geographies and countries with clear cultural affinities with Portugal and/or representing strategic markets for the Portuguese business community.

At a domestic level, the Group will continue to enhance its approach based on distinctive value propositions for each business segment, aiming to ensure profitable growth above the market's natural performance. To this end the strategy will remain focused on the following lines:

- strong client acquisition levels
- growth above the market (in customer funds and customer loans) targeting client segments with higher levels of risk adjusted return (such as companies with an international profile)
- focus on the cross-selling of products and services with the aim of increasing profitability and strengthening customer loyalty (increasing the number of clients who consider BES as their first bank)

This strategic course of action will be pursued by maintaining relatively unchanged the current level of the branch network, corporate centres and private banking centres, while identifying procedures and tools of support to commercial activity capable of ensuring the continuous reinforcement of the individual productivity of each employee in BES Group's various commercial networks.

On the international front, BES Group will continue to expand its presence into a new group of priority geographies:

- Venezuela: a request to establish a branch has been submitted to the Bank of Portugal and to the Venezuelan regulatory authorities;
- Hong Kong: a request to set up a branch will be submitted to the Bank of Portugal and to the local regulatory authorities during 2010;
- Libya: an agreement to purchase 40% of the share capital of Aman Bank for Commerce and Investment Stock Company, a private bank headquartered in Tripoli, was signed in November 2009;
- South Africa and Mozambique: the Group is currently analysing the model under which it will pursue commercial and investment banking activities in these countries;
- Algeria: having already the authorisation of the Bank of Portugal, the Group is currently pending the approval of the Algerian regulatory authorities to set up a leasing company in this country;
- Cape Verde: planned transformation of the branch held in this country into a bank; and
- Mexico: the Group has submitted a request to the local authorities to establish a BES/BESI Representative Office in this country.

As regard investment banking activities, BES Investimento will pursue its ambitious medium and long term strategy, consolidating its activity in the markets where it already operates and expanding it into other countries showing favourable conditions for the Bank's development, with the aim of increasingly establishing a position as a reference international investment bank.

Early in February 2010, the bank announced it had entered an agreement to buy 50.1% of Execution Noble, a leading investment banking and securities firm focusing on large and mid cap pan-European secondary equities and research, with headquarters in London and offices in Scotland, the United States, Hong Kong, India and Germany.

Over the near future, BES Investimento plans to initiate direct activities in the Angolan market, where it operates currently in cooperation with the Investment Banking Office of Banco Espírito Santo Angola. BES Investimento is currently pending the authorisation of the Angolan regulatory authorities to set up an investment bank (for which it has already received the Bank of Portugal's approval) and a brokerage firm in Luanda. The new investment bank will permit to (i) reinforce the support provided to the development of public and private projects in the energy, mining, and road and railway infrastructure sectors, among others, through the arrangement of structured financings, and (ii) provide advisory services in mergers and acquisition as well as financial advisory services. The brokerage firm will permit to develop capital market activities in Angola, which are expected to animate following the announced start-up of the Angola Stock Exchange and Derivatives (BVDA), associated to an expected stock exchange privatisation programme involving some of Angola's main companies.

At BES Group level, the key activity guidelines followed in recent years will be pursued:

- moderate growth in loan granting, while seeing to reinforce the Group's traditional reach in the corporate segment;
- strict monitoring of credit risk, enhancing risk mitigation factors, namely by targeting lower risk loan purposes and sectors;
- monitoring the cost of funding, while adequately adjusting the pricing of operations with credit risk;
- taking initiatives viewing the rationalisation of processes, namely through application of the new technologies, with the objective of continuously enhancing productivity and efficiency levels;
- streamlining human resources management through policies that foster and reward merit.

Considering that banking activity is inevitably conditioned by the performance of the economy and of the markets, there follows a brief description of the main risks and uncertainties that may affect the activity and results of BES Group as a financial institution operating in various markets:

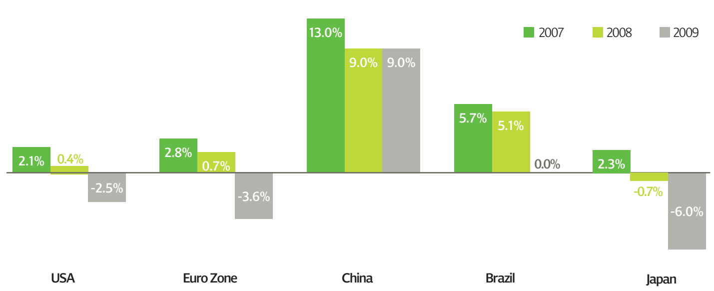
- Volatility and low confidence levels in the international markets may increase the price of funding;
- in the current context of scarce liquidity, the need to increase funding obtained from clients should continue to exert pressure on prices and on the margin;
- uncertainty over the economic recovery is expected to condition demand for credit and consequently the Group's growth;
- the global crisis may continue to have a negative impact on overdue loans thus calling for a reinforcement of credit provisions at both domestic and international level;
- notwithstanding the good performance of the international units, a deceleration in their high growth levels should be expected over the course of 2010;
- the general evolution of the financial markets may lead to negative impacts on the pension funds and consequently on Tier I capital too.

04 Economic Environment

4.1 Introduction

2009 as a whole was marked by strong falls or a slowdown in activity in the main economic areas, following the global financial crisis initiated in 2007. This was mainly the result of a sharp deterioration of confidence among the economic agents, leading to a retreat of demand and in turn to a collapse of international trade flows in the first half of the year. The general backdrop of this recession was a shrinking of available liquidity in the financial markets, breeding an environment of stricter criteria in the financing of economic activity. To address this situation, the authorities put into practice aggressive programmes of financial stabilisation and stimulus to growth, which included cutting reference interest rates to levels close to zero, a massive injection of liquidity into the financial system (namely through the central banks' purchase of private and public debt securities), and on the budgetary policy front, fiscal stimuli to the consumption of durable goods, and an increase in public investment in infrastructures.

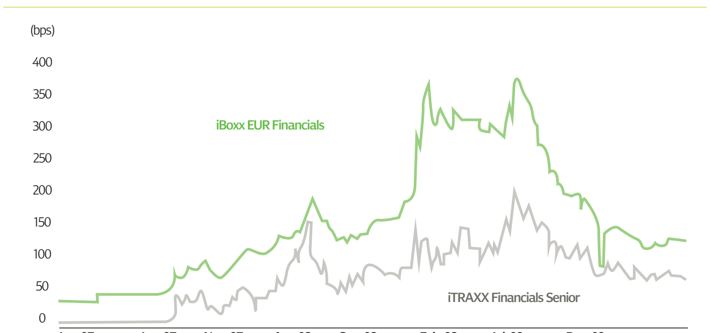
GDP Growth, Selected Economies (%)



Source: IMF, National Statistics Institutes.

Thanks to the aggressive nature of these stimuli, there started to emerge as from the second half of the year and in particular in the fourth quarter clear signs that global activity was picking up and financial conditions were stabilising. This financial stabilisation reflected an abatement in aversion to risk and greater confidence on the normalisation of the financial sector, leading to a gradual slimming down of spreads in the money and credit markets. In the Euro Area, with the key interest rate sliding from 1.5% to 1%, the 3-month Euribor dropped over the year from 2.89% to 0.7%. While remaining above pre-crisis levels, credit spreads tended to narrow down (the iTraxx Financials index, which tracks the spreads on Credit Default Swaps, fell from a high of 206 basis points in March to 75 basis points at the end of the year).

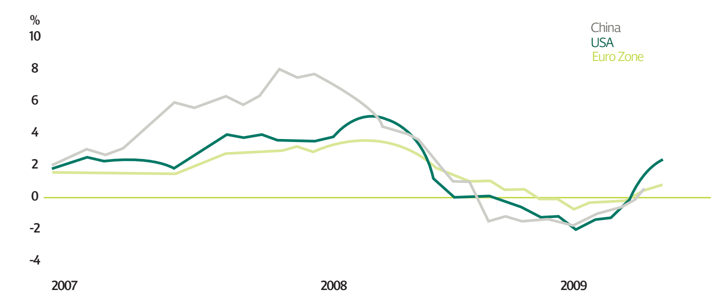
Liquidity Premium, Financial Sector (Cash Bonds vs. CDS Spreads, basis points)



Source: Bloomberg.

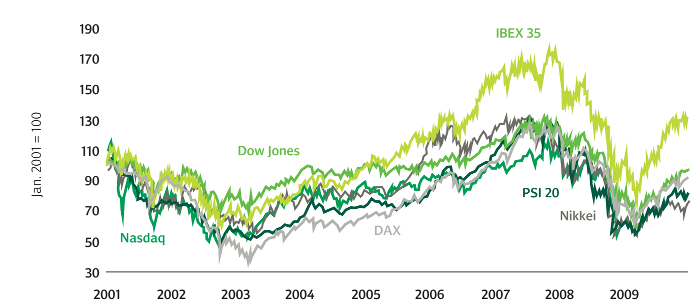
Notwithstanding the steep rise in oil prices in the course of 2009 (the price of Brent crude rose from USD 42 to USD 77 per barrel) the acceleration of productivity observed in the main economies allowed growth to recover in an environment of low inflation and interest rates. The equity and credit markets benefited from this environment, especially as from the second quarter. In the United States the Dow Jones, Nasdaq and S&P500 indices registered annual gains of 18.8%, 43.9% and 23.5%, respectively, while in the Euro Area the DAX, CAC40 and IBEX were up by 23.9%, 22.3% and 29.8%. Reflecting the improved outlook for the emerging economies, the Bovespa (Brazil), Shanghai Composite (China) and Sensex (India) indices advanced by 82.7%, 79.9% and 81%.

Year-on-Year Inflation (%)



Source: Bloomberg.

Main Stock Market Indices

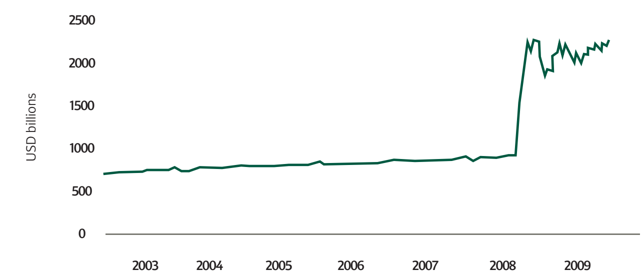


Source: Bloomberg.

4.2 International Economic Environment

The United States economy was marked in 2009 by high uncertainly regarding the evolution of economic activity and the stability of the financial system. GDP registered a sharp fall in the first half of the year, dropping in annualised terms by 6.4% and 0.7%, respectively in the 1st and 2nd quarters. Faced with this scenario, the authorities took decisive action. On the monetary policy front, the Federal Reserve, after placing the key interest rate at between 0% and 0.25% and adopting a number of liquidity injection measures still in 2008, further reinforced the use of non conventional measures in 2009. Among others, these included a programme of acquisition of mortgage--backed securities (up to USD 1,200 billion) and another to purchase public debt securities (up to USD 300 billion). The action taken by the Fed permitted to contain the rise of the yield on 10-year Treasuries (from 2.21% to 3.83% in the whole year). On the fiscal policy side, an effort to stimulate the economy was also evident: the American Recovery and Reinvestment Act, a stimulus package of nearly USD 800 billion, involved measures such as tax cuts, tax credits on the purchase of homes and certain durable goods (including cars), social and financial aid to the unemployed, and an increase in public investment (mainly in infrastructures and energy).

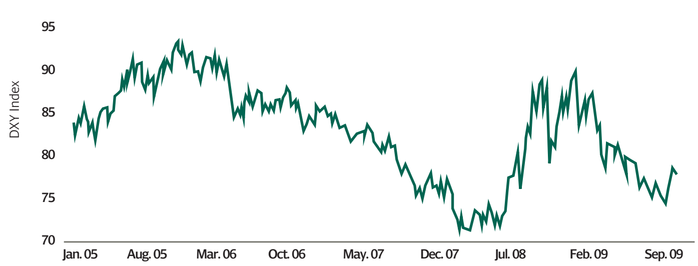
US Federal Reserve Balance Sheet



Source: Reuters EcoWin Pro.

Underpinned by fiscal and monetary stimuli, the US economy exhibited a recovering trend in the second half of the year, posting an annualised growth rate of ca. 5% in the fourth quarter. Hence GDP fell by 2.4% only in the whole year, which is not as bad as anticipated at the start of the year. Private consumption and investment registered annual declines, although significantly improving in the second half of the year (in particular the consumption of durable goods and residential investment). Other factors that contributed decisively to the improvement in activity were the beginning of a favourable cycle in restocking investment, clearer signs of stabilisation in the housing sector, and the impact of the depreciation of the USD on the competitiveness of US exports.

USD, Effective Exchange Rate



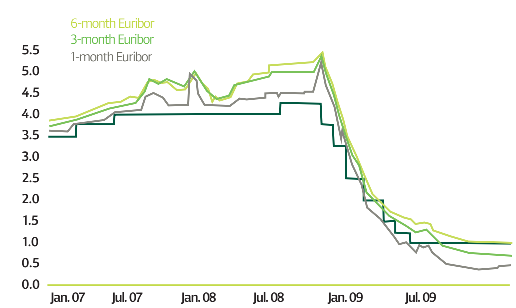
Source: Reuters EcoWin Pro.

The authorities' pledge towards economic and financial stabilisation shored up the confidence of the economic agents, allowing a climate of optimism to return to the markets as soon as in March 2009. This was made clear by a strong rally of the main stock market indices and the narrowing down of credit spreads. In addition to an improved economic outlook, the financial markets also benefited from expectations of low inflation (-0.3% in 2009), combined with a large surplus production capacity (of which the most visible expression was the unemployment rate, which at year end stood at 10% of the working population). In the ensuing environment of persistently low interest rates, the market turned to the US dollar as the main carry trade instrument, used to fund investments in higher return assets, mainly in emerging, commodity exporting economies. This sustained the fall of the US currency, which surpassed an effective drop of 16% between March and December.

In the Euro Area the economy's performance may be divided into two different periods. The first half of the year pursued the recession initiated in the second quarter of 2008, witnessing a strong contraction of activity (qoq falls of 2.4% and 0.2% in the first two quarters), and sharp drops in exports and investment. This performance should still be seen in light of the consequences of the financial crisis, which reached its height between September and October 2008. In fact, the liquidity crunch and strong deterioration of confidence in the last months of that year induced a general retreat of demand and in particular a sharp contraction of external demand (this was especially the case in Germany, where GDP is thought to have registered a fall of nearly 5% in 2009, the worst on record since World War II). At the same time, several economies in the Euro Area continued to suffer from the effects of recession in the housing sector, which magnified the negative adjustment of demand. In the full year, the Euro Area's GDP was down by 4%.

However, the third and fourth quarters of 2009 already saw a return to positive growth (qoq increases of 0.4% and 0.6% respectively), following five consecutive quarters of contraction. This improvement benefited from a rebound in exports, the positive impact of investment in the rebuilding of stocks (favouring industrial activity) and the monetary and fiscal stimuli put in place by the authorities. On the other hand, internal demand was still sluggish, suffering from restrictions on credit to consumption and private investment, the deterioration of conditions in the labour market (the jobless rate kept rising to reach 10% of the working population at year-end) and an increase in savings, warranted by a general attitude of caution.

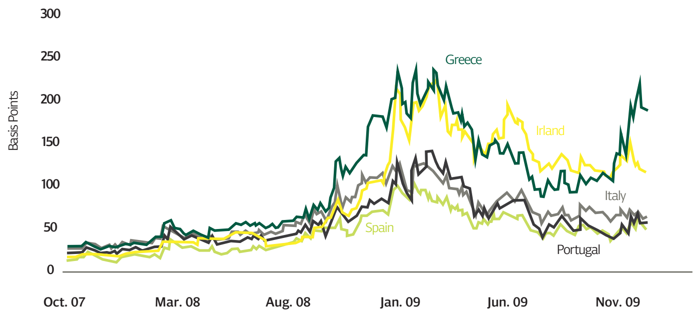
Refi and Euribor rates (%)



Source: Bloomberg.

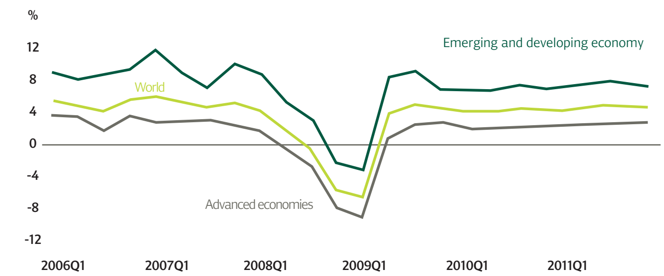
In terms of prices, the average annual inflation rate was just above 0% (3.3% in 2008), translating the absence of upward pressures on prices on the side of demand, as well as the trend in energy prices, namely the statistical effect of the decline in oil prices when compared to 2008. Under these circumstances, the European Central Bank (ECB) maintained until May the sliding trajectory of key rates, cutting the key interest rate twice by 50 basis points (in January and March) and twice by 25 basis points (In April and May). Since October 2008 this rate fell from 4.25% to 1%. Between January and May the ECB also slashed the discount and deposit rates by 125 and 175 basis points, respectively. In addition, the ECB also provided ample liquidity to the banking system, namely under three 12-month unlimited liquidity provision operations for a total of EUR 614 billion, the first two at a fixed rate of 1%, and the third at a rate tied to the rate of the main refinancing operations.

Euro Area – Yield Spreads on 10-year Government Bonds vs. Germany, Selected Economies (basis points)



Source: Bloomberg.

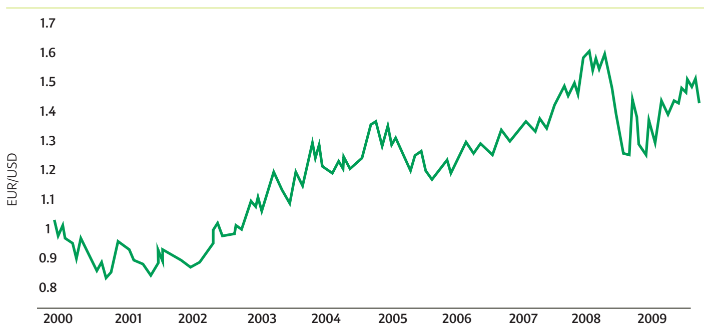
GDP Growth – World, Emerging and Advanced Economies (annualised qoq change, %)



Source: IMF, ES Research.

The expansionary fiscal policies conducted by the national governments in an attempt to stir up domestic demand led to a significant deterioration in the public accounts, with the Euro Area's overall fiscal deficit rising from 2% to ca. 6% of GDP. In particular, Greece, Ireland and Spain saw their general government deficits climb to over 10% of GDP. The result was an increase in these countries' sovereign risk (a widening of the government bonds yield differential between these countries and Germany), which mostly penalised Greece and Ireland (whose ratings were downgraded at the end of the year) but also the other economies in the periphery of the Euro Area (Italy, Spain and Portugal, the last two seeing a downward revision of the outlook on their credit ratings.

EUR/USD Exchange Rate



Source: Reuters EcoWin Pro.

4.3 Economic Developments in the Geography of BES Group

4.3.1 Emerging Markets

One of the most striking aspects of 2009 was the maintenance of a relatively high level of dynamism in the emerging economies. Although slowing down when compared to 2008, the GDP of this group of economies still grew by 2.1%, which compares with falls of 3.2% and 0.8% respectively in the advanced economies and in the global economy. A lower direct exposure to the financial crisis in part explains this resilience, as well as, in some countries, a faster and more aggressive action in providing stimuli to economic activity. However, rather than being ascribed to conjunctural factors, this good performance should be associated to a structural trend. The strong growth of urban populations and per capita income in the emerging economies call for a heavy investment effort in infrastructures, including transports, energy, communication and information. Therefore the investment made in the main economies of Asia, Latin America and Africa may be considered as one of the main growth engines of the global economy.

In 2009 and in the context of the emerging markets, China clearly stood out as an unavoidable force within the destinies of the world economy. China's strong economic growth not only fosters intra-Asian growth but also fuels the exporting sectors of the main advanced and emerging economies. The Chinese GDP grew by 9% in 2009, closing the year in acceleration, at a two-digit growth rate moving towards the levels observed prior to the global financial crisis. The performance of the Chinese economy was mainly underpinned by the strong increase of investment and consumption. In fact, China responded swiftly to the downturn in global activity, shifting its growth pattern towards a domestic demand-oriented model, fuelled by a strong acceleration in the volume of credit granted (benefiting consumption and housing investment) and an aggressive investment effort in infrastructures.

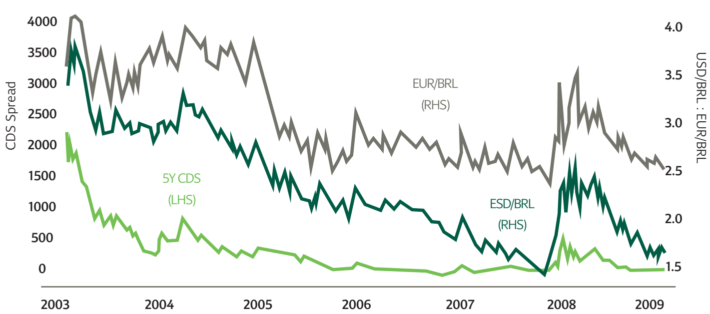
Latin America and Brazil

As a whole, the Latin American economies suffered the impact of the global economic crisis through an overall tightening of financial conditions, and above all, through the drop in international trade flows in the first half of the year. The resulting decline in exports in turn had an adverse impact on investment. GDP growth in the group of South-American economies thus retreated from 4.2% to -2.7%. However the region witnessed differing performances, with Brazil, whose GDP grew by 0% in the year while noticeably recovering in the second semester, clearly standing out.

The resilience shown by the Brazilian economy to the worst phase of the global recession in 2009 permitted a fast recovery of its main economic and financial indicators – in line with those of its BRIC peers, such as China or India. While Brazil implemented an expansionary economic policy similar to those adopted by the main global economies, this did not lead to any significant deterioration in the sustainability indicators of its public and external accounts, allowing the country positive prospects concerning the reduction of its medium and long term credit risk indices. Brazil's sovereign ratings were affirmed by Standard & Poor's and Fitch at the lowest investment grade level (BBB-) and upgraded by Moody's to Baa2, from Baa3, with a positive outlook in 2009.

The markets' perception of Brazil's capacity to recover allowed for a reduction in the sovereign risk premium – as expressed by the reduction of the spread of 5-year credit default swaps (CDSs) – from 300.5 basis points to 122.5 basis points in the course of 2009. Such shrinking of aversion to risk led to a reversal in capital flows, from a USD 48.9 billion outflow in 2008 to a net inflow of USD 18.8 billion in 2009, with the result that the Central Bank's international reserves increased to an historical peak of USD 239 billion (USD 207 billion in 2008) and the Brazilian currency appreciated by 25% against the dollar, to USD/BRL1.74.

BRL/USD, BRL/EUR and 5-year CDS spread, basis points.



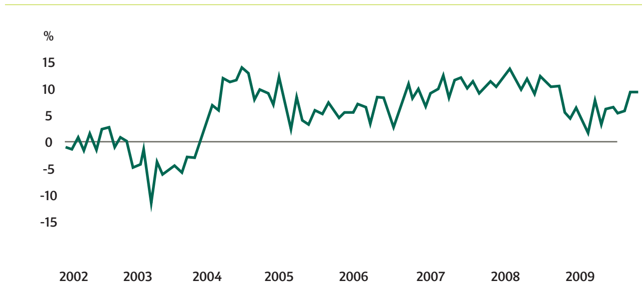
Source: Bloomberg.

The monetary policy was conducted with a view to containing the negative effects of the recession initiated towards the end of 2008. In an environment of low inflation, the SELIC rate (Brazil's benchmark interest rate) was successively cut, dropping from 13.75% in December 2008 to an historical low of 8.75% in July 2009, after which it was kept unchanged until the end of the year. The rate of inflation (Broad Consumer Price Index) closed the year below the central target of 4.5%, dropping to 4.3%, from 5.9% in 2008.

The fiscal indicators reflect the slowdown of economic activity and the adoption of stimuli, which led to a reduction in tax revenues in an environment of growing expenditure, resulting in an increase in the nominal deficit to 3.2% of GDP in November 2009, from 1.9% in 2008. Even so, after discounting the impact of interest charges on the public debt, the primary budget result up to November 2009 reflected a surplus of 2.25% of GDP, which compares with a surplus of 3.5% in 2008. The net debt of the consolidated public sector reached 43.4% of GDP in November 2009, which is higher than in 2008 (37.3%), but not much higher than in 2007 (42.8% of GDP).

In this context, the Brazilian GDP is reckoned to have registered zero growth in 2009, following its strong expansion in 2008 (+5.1%). Still, the activity indicators showed a positive trend from the first to the second half of the year, mainly on the back of growing internal demand (consumption and investment). Bearing in mind the relatively low degree of openness of the Brazilian economy, the evolution of economic activity is to a large extent influenced by domestic factors. In the fourth quarter of 2009, GDP is already estimated to have risen by some 4%, and for 2010 the Brazilian economy is forecast to grow by around 5%.

Brazil – Retail Sales (YoY change, %)



Source: Bloomberg.

An environment of improving economic indicators and low key interest rates allowed the volume of domestic credit to rise to 44.9% of GDP until November 2009 (from 39.7% of GDP at the end of 2008). This was the result of an increase in the share of credit provided by the public sector combined with a contained deterioration in the overdue loans ratio, from 4.4% of the total financial sector portfolio in 2008 to 5.8% in 2009. The financial system maintained strong solvency levels, and the Basel Index was kept above the minimum required of 11% (at 18.4%, according to the available data for the consolidated banking system in June 2009, which compares with 17.7% in December 2008).

Being more vulnerable to the global downfall in economic activity and consequent decline in commodity volumes and prices, the Brazilian exports fell by 21.8% in 2009 (+23.2% in 2008), while imports retreated by 25.3% (+43.5% in 2008). Even so, the trade balance registered a positive inflow of USD 24.9 billion in 2009, which compares with USD 25.3 billion in 2008. The current account deficit declined to 1.4% of GDP, from 1.8% in 2008.

The decline in global foreign direct investment observed in 2009 was also felt in Brazil, with inflows dropping to USD 21 billion in November 2009, from USD 45 billion in 2008.

The balance of risks attests to the solid basis for the recovery of the Brazilian economy, which in a first moment contributed to a strong reduction in aversion to risk, and subsequently to the mounting propensity to risk observed in the course of 2009. In turn this induced a rising trend in the value of assets exposed to the potential for economic expansion in the medium and long term, the most visible expression of which is the increase in the Bovespa stock market index of close to 83%.

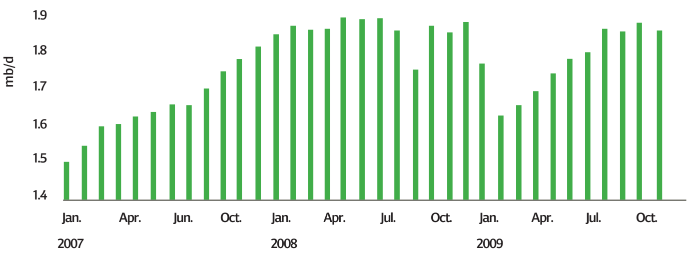
As regards other economies in Latin America, we would stress the negative GDP growth rates posted by Argentina (-2.5%), Mexico (-7.3%), and to a lesser extent by Venezuela (-2%).

Africa and Angola

Within Africa, the impact of the world recession was initially felt in the economies with a greater degree of integration in the international financial markets, such as South Africa (which registered an annual GDP drop of 2.2%). Subsequently this impact spread on to the oil exporting countries, among which Angola, Algeria, Libya and Nigeria, as well as to those that export industrial goods, namely Morocco and Tunisia. However, the strong rebound in international trade flows and the stabilisation of financial conditions in the second half of the year prompted a visible recovery of activity in the main African economies and a clear improvement in their growth prospects for 2010 and 2011. Hence in the whole of 2009 Africa's GDP grew by 1.9%, well above the world average. In individual terms, Algeria, Morocco and Libya stand out amongst the North African countries, with GDP growth rates of 2.1%, 5% and 1.8%, respectively. As to the Portuguese speaking countries, Mozambique grew by 6.1% and Cape Verde by 3.5%.

In Angola, economic activity was directly hit by the downfall of oil exports. The decline in oil revenues (and consequently in tax revenues) adversely impacted the economy's liquidity, thus penalising investment in the non oil sectors. Under these circumstances, GDP growth fell from 13.2% to around 2% in 2009.

Angola – Oil Production (mb/d)

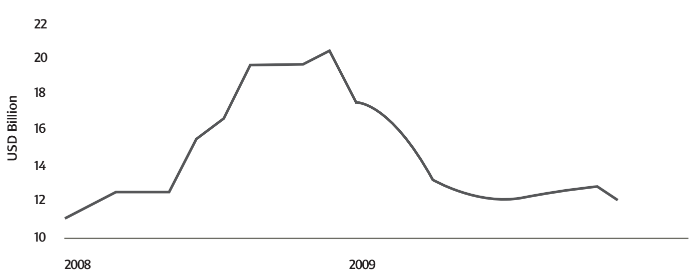


Source: OPEC.

However, shored up by the upturn in global activity and the rise in oil prices observed in the second half of 2009, in the latter part of the year the Angolan economy was already showing clear signs of a recovery, in both the oil sector and the non oil sectors. In 2009 Angola's oil production averaged 1.8 million barrels a day (mb/day), having rebounded from the fall registered in the first months of the year. By year-end Angola was already the seventh largest exporter of oil to the United States, and the largest exporter to China.

Other factors that contributed to the improvement of general economic conditions in the second half of 2009 were the efforts undertaken by the Angolan authorities to fuel the recovery of domestic production, to curb the operating costs of private businesses and to improve the population's social conditions, while maintaining an environment of macroeconomic stability. In this context, the country is expected to grow by close to 10% as soon as in 2010.

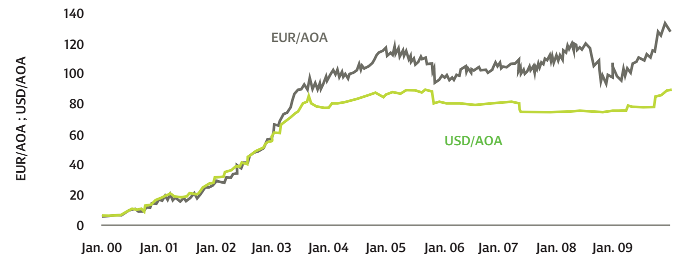
Angola – External Reserves (USD billion)



Source: National Bank of Angola.

The decline in oils revenues led the Angolan authorities to take a set of economic policy measures in order to stabilise external reserves and ensure the regular financing of the economy. At monetary policy level, these measures included the increase in the ratio of obligatory reserves required from financial institutions, setting a limit on capital transfers abroad, and raising the rediscount rate to 30%. On the foreign exchange front, following an initial adjustment of the Kwanza's exchange rate in the second quarter (from AOA/USD 75 to AOA/USD 78), and faced with mounting pressure for further depreciation, the authorities opted in October for abandoning the Angolan currency's peg to the US dollar. This prompted further drops in the following months, with the currency closing the year at AOA/USD 89. In fiscal terms, the Government cut public spending and reprogrammed investments, while also seeking to intensify the process of sectoral diversification of the economy. With the balance of payments under pressure, the Angolan government agreed with the IMF on a USD 1.4 billion loan, the second biggest loan on record to a sub-Saharan country and representing a vote of confidence on the Angolan economy. On the one hand, the funds thus obtained aim to contribute to the stabilisation of external reserves (and hence to the economy's financial stability), and on the other, to finance a set of structural projects intended to promote the economy's diversification beyond the oil sector.

Angola – AOA/USD and AOA/EUR



Source: Bloomberg.

2009 continued to be marked by inflationary pressures, mainly as a result of the kwanza's depreciation against the currencies of Angola's main trade partners, which contributed to raise the price of imports (mainly of food products), an effect that is further intensified by constraints at logistics and distribution capacity level. Year-on-year inflation thus rose from 12.5% to nearly 14%. This upward trend of inflation called for the adoption of restrictive fiscal policy measures, while further stressing the urgent need for investment in logistics infrastructures (storage, transport and distribution) and for increasing the domestic production capacity.

4.3.2 Spain

In 2009 the Spanish economy further stressed its growth pattern of recent years, which was marked by the adjustment of the various imbalances bred over the last decade (growth excessively dependent on construction and consumption, rising indebtedness, insufficient competition). Following a relatively modest contraction of activity in the last quarter of 2008, the recession became increasingly severe during the first half of 2009, with private consumption and investment being the hardest hit. In the full year GDP retreated by 3.6%, after growing by 1.2% in 2008.

The main factors behind the fall of private consumption (close to 5% in annual terms) were the sharp increase in unemployment (to nearly 18% of the working population), the negative wealth effect associated to the drop in housing prices (-6.2% YoY in the fourth quarter) and an increase in household savings, in a context of falling confidence levels and tighter lending conditions. Investment plunged by 15.5% in 2009, obviously suffering from the adjustment in the construction industry (which fell by 11%), but also by a retreat in expenditure in capital goods of close to 25%. As was the case with consumption, investment expenses were penalised by a more restrictive credit environment, worsening expectations in view of the trend in demand, and widespread concerns about the correction of the level of indebtedness to a more sustainable level. Falling domestic demand contributed to curb imports by about 20%. In this context, and despite a 13% drop in exports, net external demand still gave a positive contribution to GDP growth, while the current account deficit dropped from 9.5% to around 5% of GDP.

Spain – Unemployment Rate (% of Working Population)

Source: Bloomberg.

Faced with the sharp downturn in activity, the Spanish authorities implemented a wide set of economic stimulus measures, including the so called "Plan E" and the "Bill for sustainable economic growth". "Plan E" included four courses of action: supporting families and companies in order to promote employment; measures to support the financial system; fiscal stimulus measures; and structural measures for economic modernisation. The "Bill for sustainable economic growth" addressed a wide set of issues, aiming, among others, at reducing bureaucracy, improving education standards, supporting the internationalisation of the Spanish companies, providing fiscal incentives to innovation, and supporting investment in certain industry sectors, namely the renewable energy sector. These factors, combined with the decline in revenues and the increase in social expenditure, caused the general government deficit to surpass 10% of GDP. The deterioration of fiscal prospects prompted the S&P rating agency to downgrade Spain's sovereign rating in January 2009, to AA+, from AAA, and to revise its outlook from "stable" to "negative", in December.

The strong downfall in activity, the sharp rise of unemployment, and lower inflation of energy goods (through the statistical base effect) placed average annual inflation on negative ground (-0.3%, versus +4.1% in 2008).

4.3.3 Portugal

Reflecting the impact of the global economic recession, in 2009 the Portuguese economy suffered a GDP contraction of 2.7%. However, this performance was less unfavourable than that observed in Portugal's main partners in the European Union (GDP fell by 3.6% in Spain, 5% in Germany, 2.2% in France, and 4.8% in the United Kingdom). Besides this relatively weaker intensity of the recession, Portugal was also one of the first economies in the EU to exit the cycle of GDP negative growth, which it did as soon as in the second quarter of 2009.

This behaviour is explained by the fact that demand was not affected, as elsewhere, by strong negative wealth effects associated to corrections in the real estate market, or by disruptions in the financial system. In this sense, the recession that hit the Portuguese economy in 2009 mainly resulted from the fall in external demand, as well as from the natural deterioration in the confidence of families and companies, with a negative impact on consumption, and particularly on investment. In addition, both consumption and investment suffered from greater restrictiveness of credit to finance economic activity due to the shrinking of available liquidity on the international financial markets. Hence exports fell by 12.3% in 2009, after retreating by 0.5% in the previous year. This drop affected goods and services alike, as well as all the destinations of Portugal's exports within the European Union. Reflecting the contraction of internal demand, imports fell by 10.7%, after having risen by 2.1% in 2008.

Worsening expectations regarding the behaviour of internal and external demand, high levels of uncertainty, and lower availability of credit, all weighed heavily on investment, which registered a real fall of 12.6%. Besides the reduction of fixed capital expenditure, the contraction in stock levels further emphasised the negative contribution of investment to GDP. Hence investment by companies is reckoned to have registered a real fall of nearly 15%, which was not offset by the strong increase in public investment (of close to 13%), this being the main sign of the fiscal stimuli to economic activity, in so far as public consumption registered a real increase of 2%. Housing investment by families further stressed the downward trend observed in 2008, falling by close to 12% in 2009.

Dwindling confidence levels and growing uncertainty amidst families translated into a drop in private consumption of around 0.8%. Considering that the decline in interest rates, and in particular the increase in State contributions, effectively resulted in an increase in the available income of families, the decline in private consumption is mainly explained by the cautious attitude adopted by families. Hence 2009 was marked by a significant increase in the savings ratio, which rose to just over 8% of disposable income, thus breaking the downward trend observed since 2002. The adverse behaviour of private consumption in explained by the sharp drop in consumption of durable goods, in so far as expenses in non durable goods registered a slim increase. The purchasing power of families benefited in 2009 from negative inflation. In average annual terms, inflation fell from 2.6% to -0.8%. This primarily reflects a statistical effect linked to the steep rise in the price of commodities (mainly oil) in 2008. But it also translates the recessive environment lived in 2009, which is thought to have strongly constrained the price-setting capability of companies.

Portugal –Main Economic Indicators	2002	2003	2004	2005	2006	2007	2008	2009E
GDP	0.8	-0.8	1.5	0.9	1.4	1.9	0.0	-2.7
Private consumption	1.3	-0.1	2.5	2.0	1.9	1.6	1.6	-0.8
Public consumption	2.6	0.2	2.6	3.2	-1.4	0.0	0.5	2.0
Investment	-4.7	-8.3	2.5	-1.5	-0.3	3.2	-0.1	-12.6
Exports	1.5	3.9	4.0	2.0	8.7	7.5	-0.5	-12.3
Imports	-0.7	-0.8	6.7	3.5	5.1	5.6	2.1	-10.7
Inflation (CPI)	3.6	3.3	2.4	2.3	3.1	2.5	2.6	-0.8
Fiscal balance (% of GDP)	-2.8	-2.9	-3.4	-6.1	-3.9	-2.6	-2.7	-9.3
Public debt (% of GDP)	55.5	56.9	58.3	63.6	64.7	63.5	66.4	76.6
Unemployment (% of working population)	5.1	6.4	6.7	7.6	7.7	8.0	7.6	9.5
Current and Capital Account Balance (% of GDP)	-6.0	-3.3	-5.7	-8.3	-9.3	-8.1	-10.5	-8.3

Sources: National Statistics Institute, Bank of Portugal, Ministry of Finance, European Commission, OECD, ES Research.
E - Estimate

Notwithstanding the negative performance of exports, 2009 will also be marked by a correction of the combined current and capital account balance, or external deficit, from 10.5% to around 8.3% of GDP. This was mainly the result of the deleveraging process undertaken by the private sector in 2009, but it also reflects a decline in the energy deficit. While the private sector's financing needs declined, the general government's financing needs increased. This was mainly the result of the fiscal stimuli provided to economic activity, but also reflects the impact of the cyclical downturn on the public accounts. Hence the public deficit climbed from 2.7% to 9.3% of GDP.

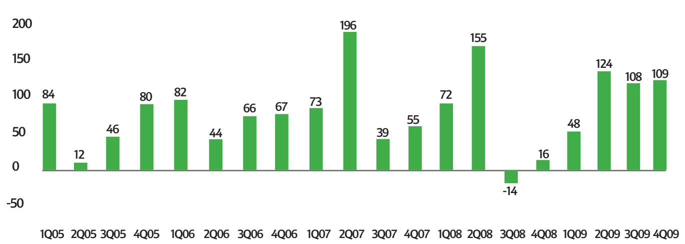
05 Financial Management and Capital Markets

Attracting customer funds and granting customer loans are of great importance for the sustained growth of BES Group's overall activity. Although on-balance sheet customer funds have remained the main source of funding, the ability to access the international financial markets has become a crucial factor of the Group's financial management. Hence a sophisticated and dynamic structure has been developed over the years allowing for the integrated management of market risks (interest rate, exchange rate, credit and equity) and a policy of prudent management of liquidity risk. Business growth is thus also supported by this ability to take advantage of expected economic trends. This capacity to operate in the financial markets has been used within the scope of BES Group's financial management and proprietary trading and has enhanced the provision of services to its clients.

The Group's activity in the financial markets is highlighted by an integrated approach to the various market risks, which over the years has permitted the bank to post consistently positive capital market results, even when subject to market instability and volatility.

Capital markets results* (QoQ)

EUR billion



(*) includes results from interest rate, exchange rate, credit and equity operations

The following key points characterised 2009: (i) credit instruments strongly penalised in the first half of the year, recovered in the second half of the year; (ii) after a sharp downfall in the first quarter, the equity markets had a remarkable performance in the following quarters; and (iii) interest rate positions taken in the second half of 2008 and essentially maintained until the first quarter of 2009 afforded the Group considerable gains.

Through its close involvement in the financial markets, namely the interest rate and foreign exchange markets, the Group has been able to offer its clients, and in particular to corporate clients, innovative solutions to manage financial risk, in accordance with each client's risk profile. Although increased volatility in the financial markets and the low level of interest rates did not allow for a significant growth in this area in 2009, a diversified offer of risk management solutions permitted the bank to maintain its importance in the corporate banking segment.

In line with a prudent liquidity management policy – of foremost importance in the recent context of the global crisis – the Group actively promoted the diversification of its funding sources as well as applications in higher liquidity assets, while increasing the assets eligible for rediscount with the Central Banks, in particular the European Central Bank (ECB) and the Federal Reserve (Fed).

The funding policy is an important part of overall liquidity management, and is defined for all types of liabilities, from customer funds to ordinary and preferred shareholder's equity, including the use of various instruments available in the financial markets. The Group is actively involved in the international markets (i) issuing hybrid capital instruments, (ii) issuing debt – short term debt under commercial paper programmes (EUR 2 billion Euro Commercial Paper Programme and USD 1 billion U.S. Commercial Paper Programme) and medium and long term debt, mainly under the Euro Medium Term Notes programme (EMTN), and (iii) executing transactions involving collateralised debt, namely through the securitisation of assets and the issuance of mortgage backed bonds under the EUR 10 billion Covered Bonds Programme.

In order to meet the new regulatory requirements as well as those of the market itself, and to allow for the reinforcement of its competitive position and the pursuance of its strategy of sustained business growth, BES carried out a capital increase operation in 2009. The rights issue met with a very good response by the market and was backed by all of the Bank's reference shareholders, despite the prevailing climate of volatility in the equity markets.

Following the instability at the end of 2008, particularly after the bankruptcy of Lehman Brothers, the beginning of 2009 was marked by risk aversion on the part of investors. The lack of confidence in the financial system and the ensuing drying up of liquidity in the sector in general prompted governments around the globe to adopt measures intended to stabilise their national financial systems. Such measures were mostly implemented late in 2008 and its effects were manifest in the activity of the international capital markets in the first months of 2009. Issues of government guaranteed bonds dominated the debt market until April, with those issued in Europe totalling approximately EUR 132.3 billion up to that date.

At the beginning of January BES successfully launched a EUR 1.5 billion Fixed Rate Note with a three year maturity guaranteed by the Portuguese Republic. Despite the difficult market conditions BES received orders from over 70 investors, reaching a total order book of ca. EUR 2.0 billion. International demand was strong, representing more than 80% of the final amount of the transaction.

The second quarter saw a decline in risk aversion among investors which allowed for the re-emergence of non guaranteed bank issues of senior debt, with the amount issued more than trebling between the first and the second quarter of 2009.

Taking advantage of this favourable market conditions, in May 2009 BES made an issued senior debt under its EMTN programme for the amount of EUR 1,750 million with maturity of five years.

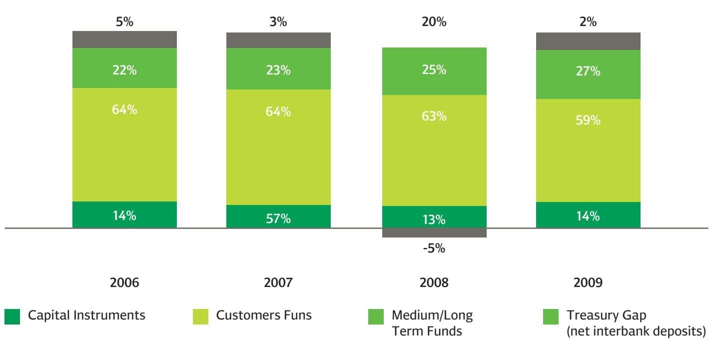
In addition, the ECB's announcement of the European central banks' programme to repurchase covered bonds to the amount of EUR 60 billion also had a positive impact on investor confidence, influencing the overall amount of covered bonds issued. This announcement also affected spreads, which moved close to their level prior to the onset of the crisis, triggered by the bankruptcy of Lehman Brothers in September 2008. Under these circumstances, in October 2009 BES issued a EUR 1.0 billion covered bond with maturity of five years.

The capital markets continued to show signs of improvement through the rest of the year, allowing BES Group to make several private placements of debt, and in November an issue of senior debt under the EMTN programme in the amount of EUR 1.0 billion and maturity of three years and three months. The total amount issued in 2009 reached EUR 7.0 billion.

The transactions made by the Group in the international markets during 2009 once again allowed it to carry short term excess liquidity. At the same time on-balance sheet customer funds grew strongly, rising by 8.6% year-on-year, while on-balance sheet customer loans increased by only 4.8%.

Although customer funds represented by deposits and capital guaranteed securities increased and remained the Group's main funding source, their relative weight in the Group's funding structure declined by 4 p.p., to 59%. This was due to the amount of operations carried out in the capital markets noting not only the refinancing of medium and long term issues which came to maturity but also the reinforcement of short-term liquidity levels. Hence the relative weight of medium and long term funds increased from 25% to 27% at the end of 2009. Finally, as a result of the capital increase, the share represented by the Group's own funds rose from 12% to 14% of the total funding sources.

Funding Structure



* Treasury gap: immediate liquidity and short term interbank credits deducted of the interbank debits up to one year

EUR thousand

Funding Sources	2006	2007	2008	2009
Medium / long term funds	10,842	13,407	15,375	19,497
Euro medium term notes & extendible notes	8,980	11,000	13,442	17,712
Medium and long term deposits with credit institutions	1,862	2,407	1,933	1,785
On-balance sheet customer funds	31,995	37,060	38,189	41,473
Capital instruments	7,063	7,509	7,482	9,578
Total	46,805	55,673	64,889	68,883
Treasury gap (net interbank deposits)*	3,096	2,302	-3,843	1,665
Cash and equivalent with credit institutions	9,153	10,049	6,716	10,594
Short term deposits from credit institutions	6,057	7,747	10,559	8,929
% of total assets	5%	3%	-5%	2%

(*) Immediate liquidity and short term interbank credits deducted of the interbank debits up to one year.

To monitor its liquidity levels, and in particular the liquidity gap, the Group has established the following guidelines:

- it should not exceed 5% of assets;
- it should not represent more than 100% of assets eligible for rediscount with the ECB or 50% of assets eligible for rediscount in the repos market;
- it should not represent more than 50% of money market lines;
- the year's refinancing needs should be covered by the amount available in rediscountable assets.

In addition to monitoring the liquidity gap, liquidity risk management is also conducted from a regulatory standpoint. Hence, according to the guidelines established by the Bank of Portugal (Instruction 13/2009), the Group prepares a monthly liquidity report, using the following method to determine the liquidity gap up to one year (accumulated mismatch):

- lending and borrowing operations, except for short-term credit and deposits, are distributed by time buckets according to the respective residual time to maturity. This assumes a scenario where all such activities are discontinued, in so far as all operations maturing within one year are not renewed; and
- the short-term components of credit and deposits are distributed by the time buckets according to behavioural models based on historical data.

As of 31 December 2009 the liquidity gap up to one year, excluding all securities eligible for rediscount maturing within more than one year, was EUR -4,069 million. Following the same instruction, the liquidity buffer, which corresponds to the amount of securities eligible for rediscount with central banks that mature within more than one year, is also determined. The liquidity buffer as of 31 December 2009 was EUR 3,890 million. Hence, using the same method described above, which assumes the discontinuity of some of the Group's activities, the liquidity gap minus the liquidity buffer was EUR -179 million.

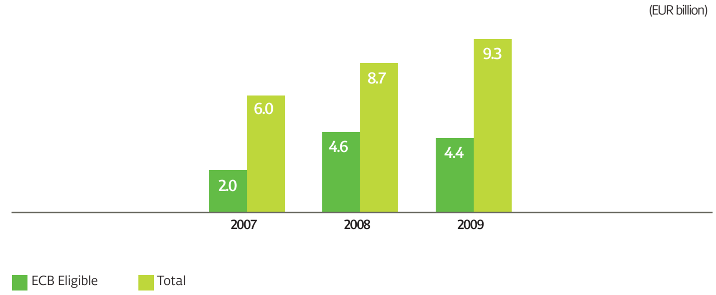
The short term liquidity surplus is managed at the consolidated level, taking into account the assets that may be rediscounted, in particular with the central banks, allowing the Group to closely monitor the risk of an increase in commercial activity, with credit growing at a higher pace than on-balance sheet customer funds.

An additional source of liquidity is provided by the portfolio of securities that may be rediscounted either with the European Central Bank or in the repos market. As part of a contingency plan outlined by the Group, the securities portfolio eligible for rediscount was consistently reinforced. In addition, a structuring plan of credit securitisation operations was also drawn up to permit the miniaturisation of illiquid assets carried in the balance sheet.

At the end of 2009 the portfolio of securities eligible for rediscount with the ECB amounted to EUR 4.4 billion, out of a total of EUR 9.3 billion that may be rediscounted, of which EUR 5.6 billion with central banks. The securities that may be rediscounted with the ECB registered a small decrease, mainly as a result of (i) the increased impact on securitisations resulting from the more aggressive haircuts disclosed by the ECB in February; and (ii) fluctuations in securities prices due to market volatility.

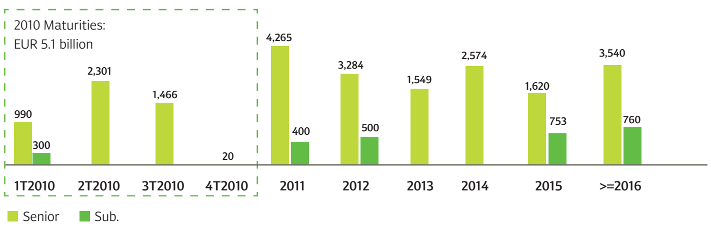
Rediscountable Securities

(EUR billion)



According to its policy of extending the maturity of funds raised in the capital markets, and taking advantage of market conditions, in 2009 BES placed debt issues with longer maturities than in 2008, thus lengthening its reimbursements profile.

Maturity Profile



Rating assigned to Banco Espírito Santo

The ratings assigned to Banco Espírito Santo by the international rating agencies reflect the bank's financial strength, built through a successful organic growth strategy. BES's ratings are currently as follows:

Agency	Long Term	Short Term	Outlook
Standard & Poor's	A	A-1	Negative
Moody's	A1	P1	Stable
Fitch	A+	F1	Stable

Standard & Poor's: A for long term debt and A1 for short term debt (negative outlook). In February 2009 S&P reaffirmed BES's credit ratings at A/A-1, but changed the outlook to negative due to the revision of the rating of the Portuguese Republic. Nevertheless, S&P referred that the ratings on BES remain supported by solid market position in Portuga

Moody's: A1 for long term debt and P1 for short term debt (stable outlook). In September 2009 Moody's rating agency, following a global review of financial institutions in the context of a European economic deterioration, downgraded BES's Bank Financial Strength Ratio (BFSR) to C- outlook stable. BES's debt and deposit ratings were downgraded to A1 outlook stable, and its senior and junior subordinated debt were downgraded to A2 outlook stable.
In November 2009 Moody's changed the outlook on the senior note guaranteed by the Portuguese republic, issued by BES on January 8th, from "stable" to "negative", following its revision of the outlook on the Portuguese republic Aa2 ratings from "stable" to "negative".

FitchRatings: A+ for long term debt and F1 for short term debt (stable outlook). In December 2009 Fitch Ratings reaffirmed BES's long term debt rating at A+, stable outlook. This rating reflects the Bank's solid position in the national market, geographic and business diversification, good asset quality and adequate capital levels.

06 Risk Management

6.1 The Risk Function within BES Group

The Risk Management function identifies, assesses and monitors all the material risks to which BES Group is subject, both internally and externally, so that such risks remain contained and therefore do not affect its financial situation. Moreover, it contributes towards the achievement of BES Group's value creation objectives, by fine-tuning tools to support the structuring, pricing, and decision-taking process of credit operations, and by developing internal techniques for performance assessment and for optimising the capital position.

The powers and duties of the Risk Management function are exercised independently from the other functional areas of BES Group.

Efficient risk management and control have always played a fundamental role in the balanced and sustained growth of BES Group, contributing to optimise risk/return across the various business lines while simultaneously providing a consistently conservative risk profile in terms of solvency, provisioning and liquidity.

Organisation of the Risk Management function within BES Group

The definition of BES Group's risk appetite is the responsibility of the Executive Committee. Its responsibility also includes establishing general principles of risk management and control, and ensuring that BES Group has the necessary competencies and resources to achieve the objectives established in this area.

BES Group has several specialised committees within its organisation that play a relevant role in the area of risk management and control, in line with the decisions taken by the Executive Committee:

Risk Committee: holds monthly meetings, attended by the Chairman of the Executive Committee, and is responsible for all matters related to global risk, for monitoring the Group's integrated risk profile, and for analysing and proposing policies, methodologies, and procedures to assess and control all types of risk.

Financial and Credit Committee: holds daily meetings which are attended by members of the Executive Committee; the main credit operations are submitted to and decided by this committee, in accordance with established risk policies; it also monitors the treasury position and the evolution of the financial markets.

ALCO (Asset and Liability Committee): holds monthly meetings, which are attended by members of the Executive Committee, including its Chairman. The ALCO analyses macroeconomic data from Portugal and from the main economic areas in the world, making impact projections on the banking business. It also monitors the evolution of BES Group's consolidated balance sheet and that of its main business units, specifically the balances of customer loans and customer funds and margins, providing the Executive Committee with the data required to set growth targets for customer loans and deposits, and define a funding strategy (management of balance sheet mismatch) and price/margins targets. Its functions also include approving the funding products' offer and pricing.

The Risk Management function is organised in such a way as to encompass the main risks to which the Group is exposed: credit, market, liquidity, interest rate, and operational risks.

The Credit Risk area is responsible for (i) the process of assigning risk ratings, (ii) drafting risk analyses, including expert opinions on new credit operations and clients/conglomerates, when so justified by the respective liabilities versus rating, and (iii) monitoring BES Group's credit risk.

Risk ratings, expert opinions and risk analyses are prepared by teams specialised by risk segments:

- Rating Desk, for top corporates (companies with individual or consolidated turnover above EUR 50 million), credit and financial institutions, institutional clients, local and regional administration bodies, and project finance and acquisition finance operations;
- Middle Market, covering the following areas:
  - validation of ratings in the medium-sized companies segment (individual or consolidated turnover between euro EUR 1.25 million and EUR 50 million);
  - drawing up risk analyses of clients, and issuing expert opinions on new credit operations (investment projects, restructuring of operations, construction financing, among others);
- Micro Companies (individual or consolidated turnover below EUR 1.25 million), Start–Ups (companies incorporated less than two years before) and Independent Professionals (IPs).

A specific team is responsible for monitoring and controlling credit risk, and for defining and implementing measures intended to deal with specific situations indicative of a deterioration of risk, with a view to mitigating potential loses.

The area of Risk and Capital Planning and Control is responsible for the planning and control of portfolios subject to credit risk through the coordinated monitoring of the following elements:

- Capital adequacy requirements and solvency: development and implementation of tools to calculate regulatory capital requirements for credit risks, in accordance with the rules defined by the Basel II Accord; monthly planning and control of regulatory capital requirements for credit risks and computation of BES Group's solvency ratios.
- Non-performing loans and credit provisioning: monthly budgeting and monitoring of overdue loans; development of the methodology to calculate credit impairment losses; and planning and coordination of the process of determining monthly impairment losses and provisioning costs.
- Risk concentration: reporting on the major regulatory risks; definition of the internal methods to measure and control credit risk concentration by conglomerates and activity sectors.

The Market Risk area has as main functions to quantify, monitor and report on market risk (trading portfolios), on-balance sheet interest rate risk and liquidity risk, articulating these functions with balance sheet management through the Assets and Liabilities Committee (ALCO).

The Operational Risk area has as main responsibilities to (i) ensure that there are procedures in place to standardise, systematise and regulate the frequency of actions to identify the main sources of risk; (ii) follow-up and monitor the performance of systems, processes and products/services against the operational risk sources identified; (iii) control key risk indicators (KRIs); (iv) analyse events occurred and resulting losses; (v) promote and monitor the implementation of actions to manage/mitigate operational risks, and (vi) report the corresponding relevant information to the appropriate level in the hierarchy.

The area of Strategic Management of Risk deals with the methodologies, evaluation models and risk policies applying to all categories of risks. At operating level, it is subdivided into two units:

- The Research and Development (R&D) unit (i) develops and monitors methodologies and models to identify and quantify the various categories of risk, namely, in the case of credit risk, the various PD[4], LGD[5] and EAD[6] models used by BES Group; (ii) develops and implements decision support tools based on risk versus value; (iii) supports the integration by the various business areas of risk adjusted return concepts; and (iv) supports securitisation processes through the management of the rating allocation process and the selection of portfolios from the standpoint of risk transfer;
- The Risk Policies/Processes unit: (i) proposes risk policies; (i) participates in the assessment of the efficiency and effectiveness of decision-making processes and in the drafting of proposals to redefine such processes, quantifying the risk parameters required in a cost-benefit analysis; and (iii) analyses and proposes approval power limits for the various types of risk, at transaction, client ant portfolio level.

The Independent Validation Unit makes sure that there is full independence from the other risk management areas, having the following main responsibilities:

- to validate on a continuous basis the risk models and parameters used to calculate capital adequacy requirements for credit risk (PD, LGD and EAD/ CCF[7]), at both quantitative and qualitative level;
- to user test the level of integration of the internal risk rating system within current and strategic management, with a particular focus on risk management;
- to validate the new credit risk evaluation models developed by the area of Strategic Management of Risk and fine-tune the existing models;
- to identify opportunities to improve credit risk evaluation models;
- to work with the Bank of Portugal and the Audit Department on the validation of the credit risk models used by BES Group.

In addition, the Internal Audit and Compliance functions also have a particularly relevant role in risk management.

6.2 Basel II

BES Group was authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach to calculate regulatory capital requirements to cover credit risk, as from March 31st, 2009. This authorisation placed the Group in a leadership position in Portugal in terms of risk management and in line with international best practices. BES is currently the only Portuguese banks certified in IRB. Furthermore, and in so far as it was granted in a context of economic depression, this authorisation bears out the reasonableness and prudence of the criteria used by the Group.

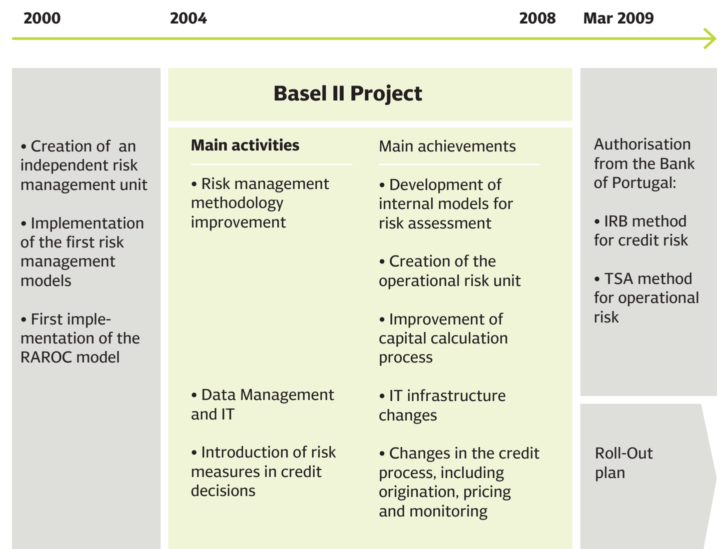
According to the regulations, the IRB approach implies the utilisation of internal estimates of default probabilities as well as estimates of loss given defaults and conversion factors for the retail segments (IRB Advanced). For the remaining segments the same authorisation allows the use of internal estimates for default probabilities (IRB Foundation).

In addition, the Bank of Portugal authorised the Group to use the Standardised Approach – TSA method to calculate regulatory capital requirements for operational risk, also as from March 31st, 2009.

BES Group has in place risk management tools allowing it to apply the best international practices in this area, this being supported by a business culture of great sensitivity to risk that is well rooted in the entire organisation.

The authorisations now granted culminate a phase of significant investment made by BES Group in its risk models, processes and systems.

4- PD: *Probability of Default*
5- LGD: *Loss Given Default*
6- EAD: *Exposure at Default*
7- CCF: *Credit Conversion Factor*



The authorisation to use the IRB Foundation method was granted to BES's head office, BES's London Branch and the Banco Espírito Santo de Investimento Group. Since June 2009 and over the coming years the utilisation of this method will be rolled out to cover various entities and portfolios of BES Group, in order to ensure: (i) high levels of rating coverage (>95%) of the IRB portfolios, both in the entities already certified and in those that have applied for certification (included in the roll-out plan); (ii) the realisation of user-tests to make sure that risk tools are used in origination, monitoring, pricing, provisioning, reporting and strategic management; and (iii) the continuous validation and updating of risk models.

ICAAP - Internal Capital Adequacy Assessment Process

In addition to the regulatory perspective, BES Group also considers its risks and available financial resources ("Risk Taking Capacity" or "RTC") from an economic standpoint in order to conduct a self-assessment exercise of internal capital adequacy, as foreseen in Pillar 2 of Basel II and Bank of Portugal Notice 15/2007.

The economic standpoint of the risks and RTC addresses both the perspective of business continuity – where BES Group wants to have the financial capacity to absorb losses without having to change its business strategy -, and the perspective of settlement – where it intends to protect its capacity to redeem senior debt and deposits. The two perspectives of capital adequacy assessment use different confidence levels to evaluate risks, and different concepts of the available financial resources to meet such risks, in line with the risk appetite defined for BES Group.

In order to quantify risks, BES Group has developed several economic capital models that estimate the maximum potential loss over a period of one year based on a predefined confidence level. These models cover the various types of risk to which BES Group is exposed, namely credit risk, market risk (trading book and banking book), property risk, pension fund risk, operational risk, reputational risk, liquidity risk and strategy and business risk. Economic capital requirements to cover the last three risks are calculated through stress tests.

The value of the economic capital requirements for each risk is aggregated taking into account inter-risk diversification effects. In addition to calculating economic capital requirements, the main risk factors are subject to stress tests in order to identify any weaknesses or risks which the internal models failed to uncover.

As a complement to the capital adequacy analysis carried out at the end of each year, BES Group makes a forward looking analysis of capital requirements (risks) and available financial resources over a three-year timeframe, under both the basic planning scenario and a scenario of further deterioration in the macroeconomic environment. This exercise determined that credit risk, the banking book's market risk and the pension fund risk represented more than 75% of BES Group's total risk. The results obtained permitted to conclude that the Group's own funds are sufficient to cover the risks incurred, from either the regulatory or the economic standpoint.

6.3 Risk Weighted Assets

EUR million

Risk Weighted	2008		2009
	Basel II Standard	Basel II (IRB)	Basel II (IRB)
Banking Book	53,791	49,987	57,426
Trading Book	2,878	2,878	4,003
Operational Risk	3,042	2,840	3,668
Rik Weighted Assets	**59,711**	**55,705**	**65,097**

As of December 31st, 2009, Risk Weighted Assets totalled EUR 65,097 million, of which EUR 57,426 million (88% of the total) corresponded to credit and counterparty risk, EUR 4,003 million to market risk and EUR 3,668 million to operational risk.

Credit and Counterparty Risk

As referred further up, BES Group uses the Internal Ratings Based (IRB) approach for exposures subject to credit risk, in accordance with the rules set out in Annex IV to Bank of Portugal's Notice 5/2007.

EUR million

	Domestic Activity		International Activity		Total	
	Risk Weighted Assets	Risk Weight[1]	Risk Weighted Assets	Risk Weight[1]	Risk Weighted Assets	Risk Weight[1]
Central Autorities or Central Banks	151	3%	2,092	58%	2,244	26%
Institutions	2,253	25%	545	32%	2,798	26%
Corporate	31,059	70%	11,568	74%	42,627	71%
Retail	4,762	27%	622	59%	5,383	29%
Other	4,156	85%	219	75%	4,375	84%
Total	**42,380**	**52%**	**15,046**	**68%**	**57,426**	**56%**

In terms of geographical distribution, the international activity contributed with EUR 15,045 million, or 26.2%, to total Risk Weighted Assets, while the domestic activity contributed with EUR 42,380 million. By categories of risk, the Corporate segment represented 71% of total Risk Weighted Assets, which is in line with its predominant role in BES Group's activity.

Market Risk

Capital requirements for market risk are calculated using the standardised method. As of December 31st, 2009 the capital requirements for Risk Weighted Assets amounted to EUR 4,003 million, with the main contributors being Interest Rate/Debt Instruments Risk (general and specific) and Foreign Exchange Risk.

EUR million

Trading Book		2008	2009	Variation
Debt instruments	Specific risk	576	552	-24
General risk		1,059	1,137	78
CIE *		397	133	-264
Equity instruments	Specific risk	22	43	21
General risk		26	52	26
CIE *		0	274	274
Commodity risk		1	5	4
FX risk		797	1,807	1,010
Total		**2,878**	**4,003**	**1,125**

* Collective investment entities – Investment Funds

The increase in requirements in 2009 essentially stemmed from changes in foreign exchange risk, and more specifically from the increase in equity exposures in the available for sale portfolio, which was mainly due to the valorisation of the position in Banco Bradesco.

Operational Risk

Under the Standardised Approach, the relevant indicator for calculating capital requirements for operational risk is the average over three years of the sum of the risk-weighted relevant indicators calculated each year across the regulatory business lines.

As should be expected, in 2009 risk-weighted assets increased over the previous year, in line with the growth of net income considered for purposes of calculation of the relevant indicator. This was mainly the result of the positive contributions from the international area and capital markets activities, both having increased when compared to 2008.

6.4 Risk Management within BES Group

6.4.1 Credit Risk

Credit risk is the potential financial loss arising from the failure of an obligor or counterparty to honour its contractual obligation. As the major risk to which the Group is exposed within the scope of its lending activities, credit risk management and control is supported by a robust system that permits to identify, assess and quantify risk, and requires the interaction between the various teams responsible for the management of risk during the different stages of the credit process.

A. Management Practices

Credit portfolio management is carried out as an ongoing process that requires the interaction between the various teams responsible for the management of risk during the different stages of the credit process. This approach has resulted in continuous improvements in the following areas:

- the credit risk modelling system, with a consequent reduction in subjective criteria in the assessment of credit;

• the decision procedures and circuits, namely the independence of the risk function, the delegation of powers according to rating levels, and the systematic adjustment of prices, maturities and guarantees provided by the clients;
• the information systems that produce the various elements required for credit risk assessment, by making these data available to all the intervenients in the credit process;
• the independence of the process of formalisation/execution of operations vis-à-vis the origination structure.

As a result of the vast set of initiatives taken over the previous years, namely within the scope of the global project of revising the credit-decision process in the various commercial segments, combined with the near full coverage of credit exposures by internal rating classification, the loan granting process within BES Group is now supported by the widespread use of risk-adjusted return metrics.

Across nearly all the commercial segments, internal rating classifications are directly incorporated into the definition of credit powers at the various decision-taking levels, including with regard to the differentiation of pricing.

The use of rating classifications for purposes of establishing portfolio ceilings that limit credit granting by both product and segment, and in particular restrict the amounts lent when higher risks are involved, is now a broad-based practice. Compliance with the established ceilings is monitored on a regular basis. The resulting information is distributed to the commercial areas and periodically submitted to the Risk Committee.

BES Group has in place a strict lending policy that significantly contains exposure to its clients. In view of the recessive economic environment and the crisis lived in the financial markets, BES Group's credit risk management policy in 2009 was particularly conservative, leading to an intensification of actions at the level of credit origination, monitoring and recovery.

Origination

• More strict limits on new credit;
• Increase of credit related guarantees;
• Improved price to risk adjustment;
• Increase in coverage with ratings;
• Improved information that supports the credit decision process.

Monitoring

• Closer monitoring of the process with strong involvement of top management;
• Access to credit risk information provided to commercial areas;
• Reinforcement of follow-up steps in the credit process (prior to default);
• Improvement in guarantee management process and control.

Recovery

• Anticipating the recovery steps;
• Monitoring borrowers and assets received as guarantees;
• Fine tuning the process of business specific credit recovery with divestment areas;
• Increase of the risk weight in the objectives and incentive systems of commercial areas.

A.1. Internal Risk Rating Systems

In line with the specific characteristics of the various client segments, different internal risk rating systems and risk parameters were developed for both corporate and individual clients.

In accordance with the new rules on minimum regulatory capital requirements (Basel II) and following the best risk management practices, the internal risk rating systems are validated on a regular basis by the Independent Validation Unit. In 2009 the internal validation exercise conducted of the various rating models for the main credit portfolios confirmed that these models were robust and well calibrated for assessing credit risk.

Internal Rating Models for Corporate Credit Portfolios

Corporate Credit portfolios are approached differently, according to client size and industry sector, using different models specifically adapted to project finance, leveraged finance and real estate financing.

	Segmentation criteria	Model type	Description
Expert Judgement	Sector, Dimension, Product › Financial institutions › Municipalities › Institutional clients › Local and regional admin. › Large corporates [Sales > EUR 50 mn › Real estate (Investment/ Promotion) › Acquisition Finance › Project Finance	Template	Ratings attributed by teams of analysts, using sector specific models (templates) as well as financial and qualitative information.
	Medium sized companies: › Sales [EUR 1.25 mn to EUR 50 mn]	Semi-automatic	Ratings model based on financial and qualitative information validated by analysts..
	Small businesses: › Sales up to EUR 1.25 mn	Automatic	Rating model based on financial, qualitative and behavioural information.
Statistical	Start-Up's and entrepreneurs		Rating model based on qualitative and behavioural information.

For Large Companies, Financial Institutions, Institutional Clients, Local and Regional Administration, and Specialised Finance (i.e. project and acquisition finance) credit ratings are assigned by a rating desk. The Rating Desk is formed by specialised technical analysts, organised into multi-sectoral teams, and also validates at central level the ratings submitted by the credit risk analysts geographically spread through BES Group's various units.

To assign internal risk ratings to these risk segments, classified as Low Default Portfolios, these teams uses expert-based systems (templates) that include quantitative and qualitative variables strongly linked to the industry sector in question. Except for Specialised Finance, the rating methodology used by the Rating Desk includes a risk analysis of the maximum consolidation scope, identifying the status of each subsidiary within the respective conglomerate.

For the Middle Market segment (companies with turnover between EUR 1.25 million and EUR 50 million, except when in sectors classified as specific risk segments, such as real estate development), the Group uses statistical rating models, which combine financial information with qualitative data. The disclosure of risk ratings requires a previous validation by a team of risk analysts, who also take into account behavioural factors and, in the circumstances foreseen in the credit process regulations, draw up risk analysis reports expressing their favourable or unfavourable opinion on the proposed operations.

The team also monitors the credit portfolio of BES Group's clients by preparing risk analyses that take into account the client's current liabilities versus rating, as established in internal regulations, issuing specific recommendations concerning the credit relationship to be followed with the client in question.

In the Small Businesses segment (companies with turnover below EUR 1.25 million), ratings are also determined through statistical rating models, which in addition to financial and qualitative data, also use behavioural information concerning both the companies and the respective partners.

Specific rating models have also been implemented to quantify the risk of start-ups (companies in business for less than two years and turnover below EUR 25 million in the first year) and independent professionals.

Finally, in the real estate sector (property developers, in particular small and medium-sized firms), given its characteristics, ratings are assigned centrally by a specialised team, using quantitative and technical variables (property valuations conducted by specialised units), as well as qualitative variables. This team is also responsible for making the risk analyses included in specialised credit proposals (Construction Financing).

Internal Scoring Models for Individual Client Portfolios

BES Group uses origination and behavioural scoring models for the main products offered to its individual clients - mortgage loans, consumer loans, credit cards, overdrafts and loan accounts – whose ratings are calibrated to a probability of default within one year. The models' predictive capacity is subject to monitoring on a regular basis.

		Models	
Portfolios		**Scoring at origination**	**Behavioural Scoring**
Mortgages		Model for new and current clients (less than 6 months history)	Model for current client with more thank 6 month history
Other credit to individuals		Model for new and current clients (less than 4 months history)	Model applied to operations with more than 6 month history
Credit accounts		Model for clients (account history of more than 6 months)	Model applied to operations with more than 6 month history
Financing		Model for clients (with history of more than 6 months)	Model applied to operations with more than 6 month history
Cards		Model for new and current clients (less than 6 months history)	Model applied to operations with more than 12 month history
Current accounts	**With limit**	Limit scoring at origination: Model for new clients (less than 6 months history), model for new accounts for current clients and model for introduction of limits in accounts with more than 6 months history.	Model applied to operations with limit and with more than 6 month history
	Without limit		Model applied to operations without limit and with more than 6 month history

Besides estimating the probability of default, the Group also regularly monitors other parameters required for risk quantification and management, namely recovery (1- LGD) and Exposure at Default (EAD).

All the rating and scoring models described now play a key role, not only in the technical analysis of risk, but also in the credit risk approval and monitoring processes. These rating and scoring models were also applied in the pre-approved loan campaigns launched by BES Group in the course of 2009.

LGD Models

When a client fails to pay its liabilities, the Group will not necessarily lose the entire claim, even if the risk is not mitigated through collateral. Loss Given Default (LGD) measures the total economic loss when a debtor defaults on a loan. Hence the calculation of LGD also takes into account all the cash flows generated after default, including inflows from (partial) payments by the client or from foreclosure of collateral, recovery costs, administrative costs and the cost incurred through the financial effect of discounted cash flows.

Since 2004 BES Group calculates LGD parameters based on internal data concerning the main products offered to its individual clients - mortgage loans, consumer loans, credit cards, overdrafts and loan accounts – as well as the portfolios of Small Businesses and Independent Professionals. Where appropriate, such parameters are used in risk management, impairment calculations and calculation of regulatory capital.

In 2009 BES Group updated the LGD parameters applicable to the mortgage loans, consumer loans, small businesses and individual professionals portfolios included in the Retail portfolios in order to reflect new segmentation and credit granting criteria.

Finally, BES Group also makes internal estimates of recovery rates for medium-sized and large companies portfolios.

A.2. A Credit Risk Monitoring

The monitoring and control activities currently established at BES Group aim to quantify and control the evolution of credit risk, in order to allow early definition and implementation of concrete measures to deal with specific situations indicative of a deterioration of risk – with a view to mitigating potential loses -, as well as to outline global strategies for credit portfolio management.

In this context, and with the central aim of preserving BES Group's risk quality and standards, the credit risk monitoring function and its development are objectively considered as one of the top priorities of the risk management and control system. This function comprises the following processes:

Detecting warning signals and monitoring clients

In addition to the rating models currently in use, and in close connection with the process of determining, analysing and assessing credit impairment, BES Group has in place a risk monitoring system supported by mechanisms to detect the multiple warning signals suggesting impairment indications.

According to the frequency, severity and correlation of the signals, the warning signals system identifies, analyses and quantifies the exposure of clients whose risk profile shows symptoms of deterioration. At the same time, the system determines the type of commercial relationship to be adopted, the level of active vigilance required, and, when applicable, the credit impairment level, and the adequateness of the coverage provided by the risk mitigation instruments available for each contract/client.

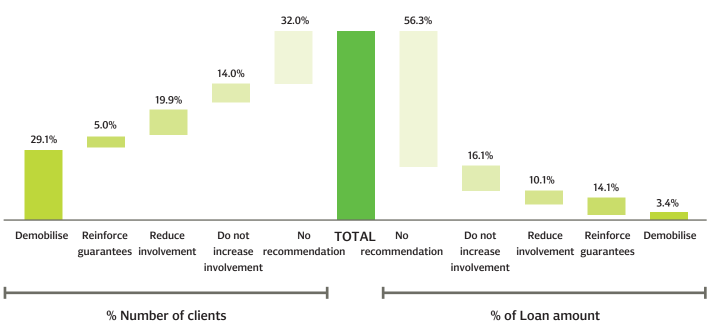
The powers mentioned above are held by the Committee for Credit Risk Analysis (CCRA). This committee holds several meetings during the year which are attended by representatives from all the commercial structures. The meetings' conclusions are periodically reported to the Risk Committee and the Executive Committee.

In view of the persistence of a difficult macroeconomic environment, credit risk monitoring and control actions were reinforced in 2009. Hence during the year the CCRA made an in-depth analysis and assessment of the specific situation of clients with an overall exposure of around EUR 13,300 million (of which 35% corresponded to the group of clients reported for the first time in 2009). On the basis of this assessment and taking into account the specific characteristics of each case, the Committee issued recommendations concerning 68% of these clients (of which 22% were first time reported clients), whose overall exposure corresponded to 43.7% of the total liabilities under analysis.

The chart below, which shows the breakdown of clients according to the type of recommendation issued, permits to draw the following conclusions:

- although the number of clients deserving defensive recommendations (Demobilise, Reinforce guarantees and/or Reduce involvement) is quite expressive (54% of the clients analysed), their credit exposure is significantly lower (slightly above 27%);
- no recommendations were issued for 32% of the clients analysed (corresponding to 56.3% of the exposures analysed), which permits to conclude that credit risk is under control / was mitigated, particularly if considering the volume of liabilities analysed by the Committee, which works in full independence from the commercial structures responsible for the origination of the credits analysed.

2009 CCRA recommendations - distribution profile of the analysed portfolio



Mirroring the growing difficulties experienced by a number of industry sectors, approximately 69% of the recommendations issued in 2009 concerned clients with business activities in three sectors only: property development, civil construction, and services.

The Committee for Credit Risk Analysis meets prior to the Executive Committee's itinerant meetings (which are attended by its Chairman) in order to allow BES Group's senior management to analyse the respective recommendations.

Project to Combat Impairment Growth (CIG)

In 2009 the credit risk monitoring process was further complemented by a specific programme to control impairment, which was called the project to Combat Impairment Growth (CIG). This project had the following objectives:

- prioritise clients at risk;
- draft financial advisory solutions;
- support corporate restructurings;
- set up a structured process to monitor risk mitigation actions defined for higher risk clients.

Following the identification and prioritisation of clients exposed to risk, the programme focused on the definition of specific actions intended to mitigate the credit risk assumed with those clients (to reduce the credit exposure and/or reinforce the guarantees provided), with a view to immediately reducing impairment, or, when faced with a likely deterioration of economic and financial conditions, to prevent it from further increasing in the future. Although the actions defined for such clients are implemented by the commercial structures, their level of success is regularly monitored by the risk area and reported to the Executive Committee.

Global analysis of the risk profile of credit portfolios

At BES Group, credit portfolio management is carried out as an ongoing process that requires the interaction between the various teams responsible for the management of risk during the different stages of the credit process. The risk profile of credit portfolios, specifically in what concerns the evolution of credit exposure and the monitoring of credit losses, is reported on a monthly basis to the Risk Committee. Compliance with the approved credit ceilings, and the correct functioning of the mechanisms of approval of credit lines used by the commercial areas in their day-to-day activity, are also regularly subject to analysis.

A.3. Credit Recovery Process

The entire credit recovery process is developed based on the concept of "integrated client". Whether in a corporate or retail segment, each client is assigned a "recoverer" that monitors all this client's credits subject to recovery. In view of its nature and the volumes involved, credit to individual clients is in some phases treated in an automatic fashion, whereas a customised approach is used to treat credit to corporate clients.

Throughout the process, the possibilities of reaching an agreement are weighed and legal action taken whenever required to recover the credits and defend the Group's rights. However, there is constant openness to consider solutions permitting a return to a non-default situation.

B. Credit Risk Analysis

B.1. Credit Portfolio

Loan Portfolio Breakdown

As of December 31st, 2009 the loan portfolio, including securitisations, had increased by 3.8% year-on-year. Corporate loans grew by 5.8%, underpinned by BES Group's continuous support to the Portuguese business community. Loans to individuals (mortgage and others) remained relatively flat when compared to the end of 2008.

EUR million

Loan Portfolio Breakdown (including securitisations)	2008	2009	Var. (%)
Mortgage	14,787	14,779	0.0%
Individuals (other)	2,802	2,817	0.5%
Corporate	34,375	36,362	5.8%
Total Loans (gross)	51,964	53,958	3.8%

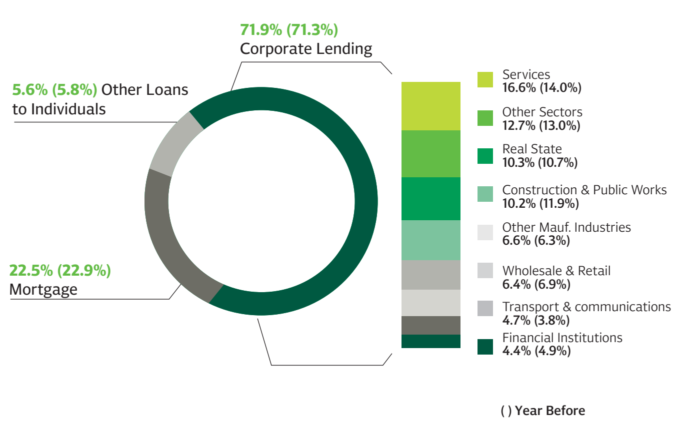
If securitisations are deducted, mortgage credit shows a year-on-year increase of 3.0%.

EUR million

Loan Portfolio Breakdown	2008	2009	Var. (%)
Mortgage	11,021	11,352	3.0%
Individuals (other)	2,802	2,817	0.5%
Corporate	34,375	36,362	5.8%
Total Loans (gross)	**48,198**	**50,531**	**4.8%**

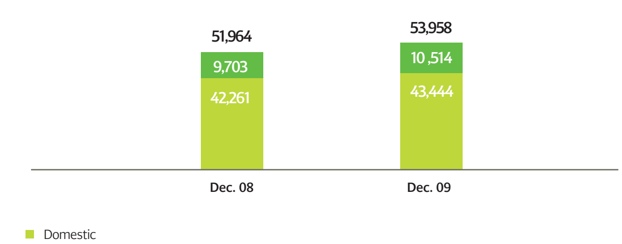
As shown by the chart below, concentration levels by industry sector remained within prudent limits.

Loan Portfolio Breakdown by Industry Sector



In terms of geographical breakdown, international activities already account for 19% of the loan portfolio, a year-on-year increase of 8.4% that bears out the Group's commitment to and success of its internationalisation strategy.

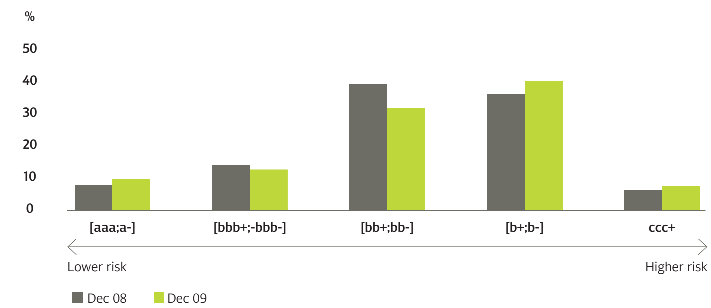
Geographical Breakdown of the Loan Portfolio



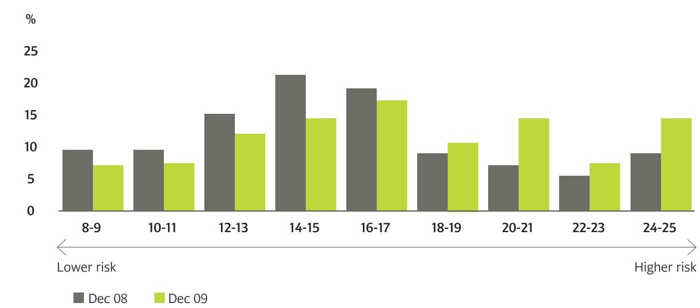
Credit Portfolio breakdown by risk rating

As would be expected, the downturn of economic activity caused by the recent global financial crisis led to a small deterioration in the loan portfolio's risk profile in 2009, calling for the reinforcement of actions at the level of credit origination, monitoring and recovery (see 6.4.1 Credit Risk/ A. Management Practices).

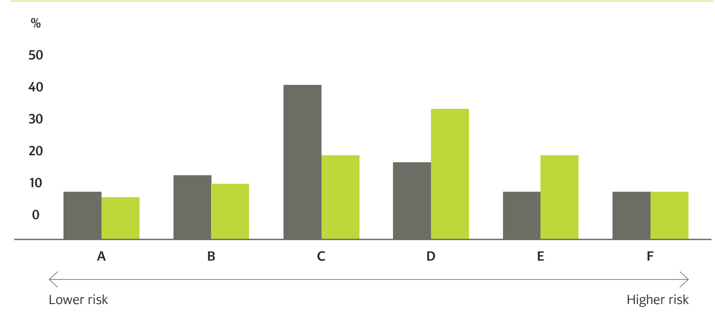
Rating Model for Large Companies



Rating Model for Middle Market



Scoring Model for Small Businesses



Credit Quality

Improved credit risk control has been achieved through the systematic development of the credit risk modelling, continuous improvement of decision procedures and circuits, focus on lower risk client segments and products, and the reinforcement of the recovery support structure.

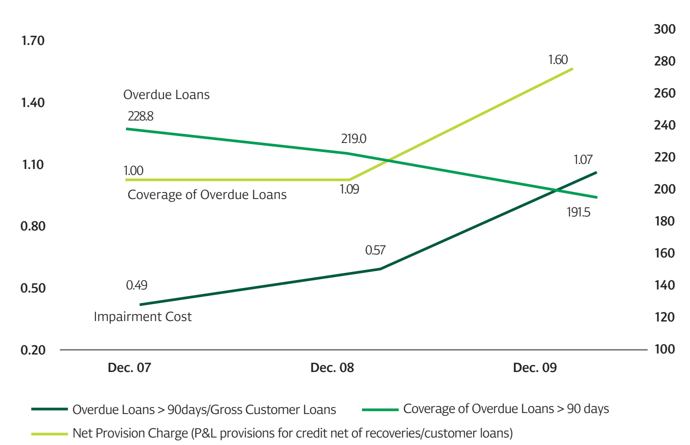
However, the adverse economic environment in 2009 inevitably affected BES Group's overdue loan ratios.

Asset Quality	**2008**	**2009**	**Change**	
			absolute	**relative**
Gross Loan	**48,198**	**50,531**	**2,333**	**4.8%**
Overdue Loans	636.9	893.5	256.5	40.3%
Overdue Loans > 90 days	524.2	810.6	286.4	54.6%
Overdue and Doubtful (BoP) (a)	762.0	1,148.0	386.0	50.7%
Provisions for Credit	1,148.1	1,552.3	404.2	35.2%
Overdue Loans/ Gross Customer Loans	**1.32**	**1.77**	**0.45 p.p.**	
Overdue Loans>90 days / Gross Customer Loans	1.09	1.60	0.51 p.p.	
Overdue and Doubtful Loans Ratio (a)	1.58	2.27	0.69 p.p.	
Coverage of Overdue Loans	180.3	173.7	-6.6 p.p.	
Coverage of Overdue Loans > 90 days	219.0	191.5	-27.5 p.p.	
Coverage of Overdue and Doubtful Loans	150.7	135.2	-15.5 p.p.	
Provisions for Credit (Balance) / Total Gross Loans	2.38	3.07	0.69 p.p.	
Provision Charge (P&L provisions for credit / customer loans)	0.57	1.07	0.50 p.p.	
Net Provision Charge (P&L provisions for credit net recoveries/ customer loans"	0.52	1.03	0.51 p.p.	

Key points regarding asset quality:

(i) favourable evolution of total balance of credit provisions over total loans, which has been consistently increasing, reaching 3.07% in December 2009 (December 08: 2.38%);
(ii) overdue loans over 90 days represent 1.60% of customer loans, with the respective coverage standing at 191.5%;
(iii) cost of risk: the provisioning charge totalled 1.07% of the loan portfolio, reflecting the policy of reinforcing credit provisions in light of the current economic downturn.

Provision Coverage and Overdue Loan Ratio

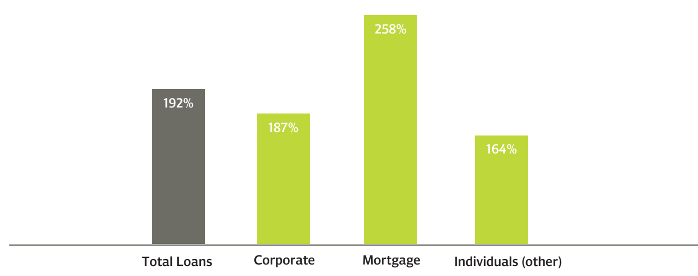


The climate of economic contraction lived in 2009, at both domestic and international level, inevitably impacted overdue loan ratios, particularly at the level of corporate credit, where the ratio of overdue loans over 90 days to total loans increased by 65 b.p.

Breakdown of overdue loans ratio over 90 days	**2008**	**2009**	**Change**
Total Loans	**1.09%**	**1.60%**	**51 b.p.**
Corporate	1.09%	1.74%	65 b.p.
Mortgage	0.64%	0.73%	9 b.p.
Individuals (other)	2.77%	3.34%	56 b.p.

As a result of a prudent and strict provisioning policy, at the end of 2009 all the segments of BES Group's credit portfolio showed comfortable coverage ratios of credit by provisions.

Coverage of overdue loans > 90 days - breakdown by credit segments



B.2. Exposure to Emerging Markets

As of December 31st, 2009, the foreign currency exposure to emerging markets as determined under the Bank of Portugal risk assessment criteria was EUR 3,480 million, which represents 4.2% of consolidated assets (December 31st, 2008: 2.7%).

EUR million

Countries	Bank of Portugal Risk Weight 2009	Dec. 08 Net Exposure Total	Dec. 08 Net Exposure in foreign currency	Dec. 08 Structure[3]	Dec. 09 Gross Exposure[1]	Dec. 09 Guarantees and Deductions [2]	Dec. 09 Net Exposure Total	Dec. 09 Net Exposure In foreign currency	Dec. 09 Structure[3]
LATIN AMERICA		**1,761**	**552**	**46%**	**4,158**	**931**	**3,227**	**854**	**45%**
Brazil	0%	1,491	282	39%	3,307	163	3,144	771	44%
Mexico	10%	7	7	0%	40	28	12	12	0%
Panama	10%	222	222	6%	90	39	51	51	1%
Venezuela	25%	3	3	0%	695	687	8	8	0%
Other		38	38	1%	26	14	12	12	0%
EASTERN EUROPE		**10**	**9**	**0%**	**7**	**3**	**4**	**4**	**0%**
Poland	0%	5	5	0%	4	0	4	4	0%
Ukraine	25%	4	4	0%	0	0	0	0	0%
Other		1	0	0%	3	3	0	0	0%
ASIA - PACIFIC		**264**	**220**	**7%**	**307**	**28**	**279**	**210**	**4%**
India	10%	41	41	1%	38	0	38	38	1%
Macao	10%	122	78	3%	146	0	146	77	2%
China	10%	11	11	0%	14	1	13	13	0%
Turkey	25%	61	61	2%	75	14	61	61	1%
Other		29	29	1%	34	13	21	21	0%
AFRICA		**1,830**	**1,281**	**47%**	**4,792**	**1,191**	**3,601**	**2,412**	**51%**
South Africa	10%	3	3	0%	20	14	6	5	0%
Angola	10%	1,739	1,200	45%	4,594	1,112	3,482	2,304	49%
Morroco	10%	10	0	0%	11	1	10	0	0%
Cabe Verde	25%	39	39	1%	91	17	74	74	1%
Other		39	39	1%	76	47	29	29	0%
TOTAL		**3,865**	**2,062**	**100%**	**9,264**	**2,153**	**7,111**	**3,480**	**100%**
% NET ASSETS		**5.1%**	**2.7%**				**8.6%**	**4.2%**	

(1) Gross amounts net provisions for country risk
(2) Includes trade finance less than 1 year
(3) As a % of total net exposure

Within the emerging markets, the Group's exposures to Angola and Brazil deserve a note, as they reflect its internationalisation strategy of the last years:

- net exposure to Angola increased by EUR 1,743 million as a result of BES Angola's sustained business growth;
- net exposure to Brazil increased by EUR 1,653 million, of which EUR 621 million derived from the valuation of BES Group's holding in Banco Bradesco and the remainder is related to Banco Espírito Santo de Investimento and BES business growth in this country.

6.4.2 Market Risk

The Market Risk area has as main functions to quantify, monitor and report on market risk (trading portfolios), interest rate risk and liquidity risk.
Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share prices or commodity prices.

A. Management Practices

Market risk management is linked to balance sheet management through the Assets and Liabilities Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for controlling exposure to interest rate, foreign exchange rate and liquidity risks.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which Value at Risk (VaR) valuation criteria is used. BES Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.
To improve on the VaR assessment, other initiatives have been developed, namely back testing, which consists of comparing the losses foreseen by VaR with actual losses. These exercises allow the model to be fine-tuned and its prediction capacity improved.

As a complement to the VaR model, stress testing is also carried out – allowing the Group to assess the impact of extreme potential losses.

B. Main Developments in 2009 going into 2010

With regard to market risk, we note the following developments in 2009, which took place within the scope of the Internal Capital Adequacy Assessment Process (ICAAP):

BES Group's VaR models were fine-tuned to fit the financial markets' current situation. This included:

- stress-testing the credit spread risk of bonds;
- updating the product list;
- creation of hypothetical extreme scenarios (Worst Case and Market Panic).

With regard to liquidity risk, the Group set up working groups to assess the impacts of future developments in the prudential framework resulting from a series of recently issued papers, namely:

"The Implementation of Common Rounds of Concerted Liquidity Stress-Tests" (ECB November 2009)
"Guidelines on Liquidity Buffers and Survival Periods" (CEBS December 2009)
"International Framework for Liquidity Risk Measurement, Standards and Monitoring" (BIS December 2009)

C. Analysis of Market Risk

Consolidated value at risk (VaR) on December 31st, 2009, relating to trading positions in equities, interest rate instruments, commodities, as well as FX positions (except the FX position in equities in the available for sale portfolio and in the portfolio of assets at fair value) totalled EUR 32.6 million, which compares with EUR 47.3 million at year-end 2008. This value (EUR 32.6 million) corresponds to 0.6% of BES Group's consolidated Tier I capital.

Value at Risk 99% at 10 days	Dec.09	Maximum 09	Average 09	Dec.08
Equity and commodities	16.6	33.1	21.8	9.2
Interest rate	12.7	15.1	20.0	32.6
FX	24.2	33.5	28.7	25.0
Diversification effect	-21.0	-25.6	-25.5	-19.6
Total	**32.6**	**56.1**	**45.0**	**47.3**

As a complement to risk measurement, simulated extreme scenarios are also analysed. All risk factors were subject to extreme scenario testing, based on the most positive and the most negative 10-day shifts occurred in the last 20 years. As of December 31st, 2009 we found that the risk factors to which BES Group is more exposed lie in European yield curves, South-American exchange rates and South-American indices.

data in EUR mn

	Extreme case	Loss
Interest rate risk	22% parallel yield curve shift - Europe	24.0
	15% yield curve twist - Europe	10.4
	30% parallel yield curve shift - North America	6.6
	25% yield curve twist - North America	6.0
FX risk	35% change in South American countries	59.5
	20% change in Asian countries	18.6
	20% change in the Oceania countries	9.1
	20% change in African countries	7.6
	15% change in Eastern European countries	6.9
Equity risk	43% change in South American indices	85.7
	25% change in European indices	31.1
	30% change in North American indices	10.6

6.4.3 Interest Rate Risk

Interest Rate Risk lies in the exposure of the financial situation to adverse movements in interest rates. This risk may be understood in two different but complementary ways, namely: as the effect on the net interest margin, or as the effect on the value of capital, of interest rate movements that affect the institution's banking book.

Fluctuations in market interest rates affect the net interest margin by altering the amount of income and costs associated to interest rate products, as well as by altering the value of the underlying assets, liabilities and off-balance sheet instruments.

Main sources of risk in the banking book:

- the repricing risk, which results from the impact of the repricing of products subscribed by clients on the Bank's assets and liabilities;
- the yield curve risk, which derives from asymmetrical movements of interest rates along the yield curve; and
- the basis risk, deriving from an imperfect correlation in the adjustment of interest rates received or paid for different financial instruments with similar repricing characteristics.

In the case of BES Group, interest rate risk essentially derive from the issuance of long term fixed-rate bonds that are not dully hedged by interest rate swaps, or for which there are no assets (bonds and fixed-rate mortgages) to mitigate exposure to that risk.

The Group's banking book exposure to interest rate risk is calculated on the basis of Bank of International Settlements (BIS) methodology, classifying all interest rate sensitive Assets, Liabilities and off balance sheet items, excluding those from trading, using repricing schedules. The model used is similar to the duration model, using a stress testing scenario corresponding to a parallel shift of 200 basis points in the yield curve for all interest rate levels (Bank of Portugal Instruction 19/2005).

Interest rate risk measurement basically consists of determining the effect of changes in interest rates on equity and net interest income. On December 31st, 2009, interest rate risk, measured as its impact on BES Group's shareholders' equity, was EUR 607 million, which compares with EUR 85 million at year-end 2008.

6.4.4 Liquidity Risk

Liquidity risk arises from the present or future inability to pay liabilities as they mature without incurring in exaggerated losses.

In recent years most banks have increasingly resorted to obtaining funds from market sources instead of from their traditional sources (retail deposits), especially in countries where savings are typically scarce due to economic stagnation, as is the case in Portugal. It is therefore crucial for banks to maintain a prudent and sound management of their liquidity risk, particularly in times of market turmoil, such as the ones currently lived.

Every year BES Group draws up a financial plan based on the budget, which is monitored on a regular basis and revised in the course of the year, as necessary. Monitoring and controlling liquidity risk is vital for BES Group. The aim is to maintain adequate liquidity levels to meet the Group's short term funding needs, and make sure that it refinances its current activity in due time, optimising cost and maturities. Several tools are used for this purpose, namely liquidity gaps and liquidity ratios. Stress tests are also carried out based on extreme but plausible scenarios where additional funding is required, with the aim of pre-empting any constraints liable of affecting the Group's liquidity. An additional source of liquidity is provided by the significant amount maintained in the portfolio of securities that may be rediscounted either with the European System of Central Banks or in the repos market.

An in-depth analysis of liquidity levels in accordance with Bank of Portugal's instruction 13/2009, namely concerning the treasury gap and the liquidity gap, may be found in Chapter 5. Financial Management and Capital Markets.

6.4.5 Operational Risk

The Operational Risk area has as main responsibilities to (i) ensure that there are procedures in place to standardise, systematise and regulate the frequency of actions to identify the main sources of risk; (ii) follow-up and monitor the performance of systems, processes and products/services against the operational risk sources identified; (iii) control key risk indicators (KRIs); (iv) analyse events occurred and resulting losses; (v) promote and monitor the implementation of actions to manage/mitigate operational risks, and (vi) report the corresponding relevant information to the appropriate level in the hierarchy.

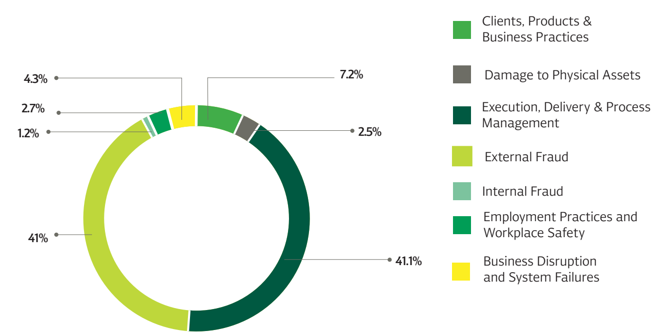
A. Management Practices

Operational risk may be defined as the probability of there occurring events with a negative impact on earnings or capital resulting from inadequate or negligent application of internal procedures, information systems, staff behaviour, or external events. Legal risk is also included in this definition. We therefore consider operational risk as the sum of the following risks: operative, information systems, compliance and reputation.

To manage operational risk, there are a set or procedures in place that standardise, systematise and regulate the frequency of actions viewing the identification, monitoring, control and mitigation of this risk.

B. Analysis of Operational Risk

Breakdown of operational risk events by type of loss (2007, 2008 and 2009)



These processes are part of a management model comprising two broad areas: the first collects and processes information, using tools that permit to identify and monitor risk; the second uses the information that has been duly analysed for an effective management of risk, monitoring the more critical situations and implementing the risk management strategy.

In 2009 the Group continued to consolidate the management model implemented in previous years, along the following guidelines:

- consolidation of the corporate governance model, by preparing specific reports on the main concerns detected and distributing these to the appropriate management levels;
- identification of highly critical risks, definition of scenarios and in-depth analysis of factors liable of affecting the risk profile of BES Group and respective entities;
- monitoring identified risks and trends using indicators and controls seamlessly aligned to these risks and trends;
- mitigation actions aligned to priority risks;
- timely analysis of loss events data to determine trends.

The management of operational risk is supported by a structure within the organisation exclusively dedicated to designing, monitoring and maintaining the model. This team ensures the application of the established procedures in its areas of competence and plays a key role in the effective day-to-day management of operational risk. Given this important role, their training and updating was once again considered a priority in 2009.

The following areas and functions also play an important part in the implementation of the model:

- the management of the Internal Control System, for its important role in guaranteeing that the processes are well documented, detecting specific risks and verifying the controls implemented, ascertaining the rigour of control design and identifying required steps for improvement and full effectiveness; there is continuous reporting to and from the operational risk management;
- the Internal Audit, which tests the efficacy of risk management and controls, identifies required steps for improvement and assesses their implementation;
- the Security Coordination area, with responsibility for data security, the safety of people and property and business continuity.

By type of loss, the most significant risk events in 2007, 2008 and 2009 may be found in “Execution, distribution and process management” and “External Fraud”, which account for 41.1% and 41% respectively of total events. “External Fraud” increased by 7.2% when compared to the analysis made in 2008, which covered the years 2006, 2007 and 2008. The less frequent type of event was “Damage to physical assets”, with a share of 2.5% of the total.

07 Financial Analysis

The year 2009 was marked by the deceleration of activity as a result of the global financial crisis initiated in 2007, which severely hit and caused major constraints to activity in the financial sector.

However BES Group once again revealed its resilience to cycles of economic downturn, even seizing the scarce opportunities that emerged to grow and generate value for its stakeholders. Hence the following main developments in 2009 should be highlighted:

- net income for the year reached EUR 522.1 million, a year-on-year increase of 29.8%, underpinned by a strong contribution of the international area;
- return on equity (ROE) rose to 10.0% (2008: 9.8%);
- total customer funds grew by 8.8% while customer loans increased by 3.8%;
- efficiency gains: the Cost to Income declined to 43.1% (from 53.0% in 2008) or to 55.0% ex-markets (from 58.2% in 2008);
- solvency levels were reinforced as a result of the capital increase: Core Tier I of 8.0% and Tier I of 8.3%; and
- average market share increased to 21.2% (20.7% in 2008).

7.1 Activity

The BES Group continued to post a solid and sustained expansion of its activity in 2009, in a difficult context for the banking sector:

- total assets increased by 7.8%, to EUR 106.5 billion;
- customer funds were up by 8.8%;
- credit, including securitisations, grew by EUR 2.0 billion (+3.8%);
- the transformation ratio improved from 123% in December 2008 to 118% in December 2009, due to the higher increase in customer funds than in customer loans.

EUR million

Activity Indicators	Dec.08	Dec.09	Chg (%)
Total Assets (1)	**98,825**	**106,513**	**7.8**
Net Assets	**75,187**	**82,297**	**9.5**
Customer Loans (including securitised)	**51,964**	**53,958**	**3.8**
Loans to Individuals	17,589	17,596	0.0
- Mortgage	14,787	14,779	0.0
- Other Loans to Individuals	2,802	2,817	0.5
Corporate Loans	34,375	36,362	5.8
Total Customer Funds (A+B)	**55,698**	**60,595**	**8.8**
On-Balance Sheet Customer Funds (A)	38,189	41,473	8.6
- Deposits and Similar	29,910	34,724	16.1
Deposits	26,387	25,447	-3.6
Certificates and Deposits	3,523	9,277	163.3
- Debt Securities placed with Clients (2)	8,279	6,749	-18.5
Off-Balance Sheet Customer Funds (B)	17,509	19,122	9.2

(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities + Securitised non consolidated credit
(2) Includes funds related to consolidated securitisations

Corporate loans were up by 5.8% (more than EUR 2 billion), contrasting with the performance of loans to individuals, which remained flat year-on-year. The evolution of corporate lending demonstrates the commitment of BES Group to support the national business community, in particular the small and medium-sized companies. This positioning allowed the weight of corporate loans in the total credit portfolio to increase by 1.2 p.p., to 67%.

EUR million

Breakdown of the Credit Portolio	Dec.08		Dec.09		Change	
	Excluding Securitisations	Including Securitisations	Excluding Securitisations	Including Securitisations	Excluding Securitisations	Including Securitisations
Total Loans (gross)	**48,198**	**51,964**	**50,531**	**53,958**	**4.8%**	**3.8%**
Mortgage	11,021	14,787	11,353	14,779	3.0%	0.0%
Individuals (other)	2,802	2,802	2,817	2,817	0.5%	0.5%
Corporate	34,375	34,375	36,361	36,362	5.8%	5.8%

Securitisation figures represent outstanding balance of securitisation operations at year end.

On-balance sheet customer funds grew by 8.6%, fuelled by certificates of deposit. Off-balance sheet customer funds posted a 9.2% year-on-year increase, reflecting the market recovery and improvement of investor confidence in this type of saving products.

EUR million

Off Balance Sheet Funds	Dec.08	Dec.09	Var (%)
Mutual Funds	4,748	5,532	16.5
Real Estate Funds	1,142	1,263	10.6
Pension Funds	2,608	2,721	4.3
Bancassurance	5,190	5,511	6.2
Portfolio Management	1,968	2,561	30.1
Discretionary Management and Other	1,853	1,534	-17.2
Total	**17,509**	**19,122**	**9.2**

The Group's international units continued to post a strong growth, namely BES Angola, which lifted net assets to EUR 4.5 billion, underpinned by an increase in credit of 44%.

Overall, i.e., considering all the Group's units abroad (in Angola, Spain, the United Kingdom, France/Luxembourg, the US, Brazil and Macao), customer loans increased by 8.4% (2.8% in the domestic business), while customer funds grew by 51.0%, by BES's London branch placement of CDS.

EUR million

Internacional Banking Business	Dec.08	Dec.09	Var (%)
Total Assets 1)	30,310	31,068	2.5
Customer Loans (including securitised)	9,703	10,514	8.4
Total Customer Funds	12,843	19,394	51.0

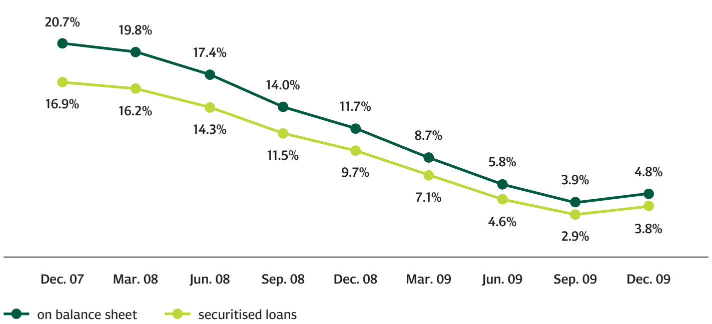
1) Net Assets + Asset management + Other Off-Balance Sheet Liabilities + Securitised non consolidated credit

7.2 Liquidity Management and Transformation Ratio

A number of measures were taken to deal with the weakening growth pace of assets, namely of customer loans, whose growth rate gradually decelerated from 20.7% in December 2007 to 4.8% at the end of 2009, although slightly accelerating in the last quarter of the year.

Customer loans

(year-on-year evolution)



The trend of increasing balance sheet leverage driven by the strong growth of credit that characterised recent years subsided somewhat in 2009, with the transformation ratio improving when compared to December 2008, except for the core ratio (deposits to credit), which declined by 14 percentage points (from 178% to 192%).

EUR million

Transformation Ratio		**Dec.08**	**Dec.09**
CUSTOMER LOANS			
Customer Loans (gross)		48,198	50,531
Impairment		1,148	1,552
Customer Loans (lnet)	A	**47,050**	**48,979**
CUSTOMER FUNDS			
Deposits	B	**26,387**	**25,447**
Deposits and similar	C	**29,910**	**34,724**
Debt Securities placed with clients [1]		8,279	6,749
On-Balance Sheet Customer Funds	D	**38,189**	**41,473**
Euro Medium Term Notes and other [2]		13,442	17,713
On-Balance Sheet Funds	E	**51,631**	**59,186**
TRANSFORMATION RATIOS			
Loans to Deposits	A/B	**178%**	**192%**
Loans to Deposits and similar	A/C	**157%**	**141%**
Loans to On-Balance Sheet Customer Funds	A/D	**123%**	**118%**
Loans to On-Balance Sheet Funds	A/E	**91%**	**83%**

(1) Includes debt securities issues under consolidated securitisation transactions and commercial paper.
(2) Includes covered and exchangeable bonds.

7.3 Capitalisation and Capital Adequacy Ratios

Regulatory capital reached EUR 9,578 million, having increased by EUR 2 billion since the end of 2008 (EUR 7,482 million).

This growth mainly reflects the rights issue concluded out in April (EUR +1,416 million between common stock capital and issue premia), but was also significantly influenced by the recovery of fair value reserves – up by EUR 567 million -, mainly through the appreciation of strategic holdings.

a. Regulatory Capital

EUR million

	Dec.08	**Dec.09**	**Chg (absolute)**
Capital	3,100	4,100	1,000
Ordinary Shares	2,500	3,500	1,000
Preference Shares	600	600	-
Share Premium	669	1,085	416
Own Shares	-30	-25	5
Revaluation Reserves	- 266	301	567
Other Reserves and Retained Earnings	624	672	48
Minority Interests	154	284	130
Subordinated Debts	2,829	2,639	- 190
Net Income	402	522	120
Total	**7,482**	**9,578**	**2,096**

The General Meeting of Shareholders of Banco Espírito Santo held on March 16th, 2009 approved a rights issue having as objectives to raise the Bank's capital ratios to meet the required levels established by the new regulatory standards issued following the global financial crisis, and to allow the reinforcement of BES Group's competitive position and its business' sustained growth.

The share capital increase, finalised on April 15th, 2009, was executed through a process that involved three stages:

1st stage – reduction of the share capital from EUR 2,500 million to EUR 500 million, through the reduction of the nominal value of each of its 500 million shares from EUR 5 to EUR 1, and immediate constitution of a corresponding special reserve in the amount of EUR 2,000 million (to be reintegrated into the share capital at the end of the process) intended to enable a capital increase through new cash entries.

2nd stage – execution of a share capital increase in the amount of EUR 1,200 million by issuing 666,666,666 new shares with the nominal value of EUR 1 each, through public subscription and granting pre-emptive subscription rights to existing shareholders, at the price of EUR 1.8 per share. The financial settlement of the shares subscribed pursuant to the exercise of pre-emptive subscription rights occurred on April 15th and the financial settlement of the shares subscribed within the pro rata allocation process occurred on April 16th.

3rd stage – execution of a new share capital increase in the amount of EUR 2,333 million, through the incorporation of reserves (including the special EUR 2,000 million reserve constituted in the first stage described above as well as share premia and free reserves), through the increase of the nominal value of all shares from EUR 1 to EUR 3.

EUR million

Capital Increase	**Before Share Capital Increase**	**1st phase**	**2nd phase**	**3rd phase**	**After Share Capital Increase**
		Reductionof the nominal value	**Gross proceeds**	**Incorporation of reserves**	
Capital	2,500	-2,000	667	2,333	3,500
Share premium	669	-	533	- 104	1,098
Special reserve	-	2,000	-	-2,000	-
Legal reserve	229	-	-	- 229	-
Total	**3,398**	**-**	**1,200**	**-**	**4,598**
Number of Shares (million)	**500**		**667**		**1,167**
Nominal value (euros)	**5.00**		**1.00**		**3.00**

Upon the conclusion of this process the Bank's share capital, in the amount of EUR 3.5 billion, is represented by 1,166,666,666 shares with the nominal value of EUR 3 each. On April 16th, 2009 the new shares were listed on the NYSE Euronext Lisbon.

The capital increase of 2009 was the seventh since the Bank's reprivatisation in 1991 and the second largest.

Capital Increases since the Reprivatisation

EUR million

Event		Number of shares (mn)				Placement		
		Share capital increase						
Order	Month / Year	Incorporation of reserves	Total	Accumulated	Nominal capital	Proceeds	Share premium	% Share premium
				40.00	**200**			
1	Aug/92	20.0	26.0	66.0	**330**	59.8	29.9	50
2	Aug/95	13.2	21.4	87.4	**437**	83.7	43.0	51
3	Jun/98	17.5	30.2	117.6	**588**	286.4	223.2	78
4	Jul/00	44.6	82.5	200.0	**1,000**	453.6	264.3	58
5	Feb/02	50.0	100.0	300.0	**1,500**	550.0	300.0	55
6	May/06	50.0	200.0	500.0	**2,500**	1,380.0	630.0	46
7	Apr/09	-	666.7	1,166.7	**3,500**	1,200.0	533.0	44

The main equity stakes in the available for sale portfolio – which includes Banco Bradesco, Electricidade de Portugal, Portugal Telecom and Banque Marocaine du Commerce Extérieur – show potential gains of EUR 391 million. In accordance with the current regulatory framework, potential losses are deducted from Core Tier I, adjusted by deferred taxes assets, while only 45% of gross potential gains on securities are eligible as Tier II capital.

EUR million

Main Equity Stakes in the Available for Sale Portfolio	Gross Potential Gains and Losses	
	Dec.08	Dec.09
Banco Bradesco	-20.5	316.7
Portugal Telecom	-91.2	67.4
Electricidade de Portugal	-75.8	-0.6
B. Marocaine Commerce Exterieur	8.0	7.3
Total	**-179.5**	**390.8**

The main equity holdings posted a recovery versus 2008, namely Banco Bradesco which in December 2009 had a potential capital gain of EUR 316.7 million.

In the third quarter of 2009, BES Group created Avistar, SGPS, a holding company which will concentrate the Group's strategic holdings.

b. Solvency

As referred in point 6.2., BES was authorised by the Bank of Portugal to use, as from March 2009, the Internal Ratings Based (IRB Foundation) approach for credit risk and the Standardised Approach – TSA method for operational risk.

Solvency levels were reinforced as a result of the capital increase, positioning BES amongst the best capitalized banks in Iberia. The solvency ratio as measured under the IRB method was 11.3% (11.3% in Dec. 08), with Tier 1 and Core Tier 1 standing at respectively 8.3% and 8.0% (7.1% and 6.1% in Dec. 08).

Risk Weighted Assets and Regulatory Capital (Bank of Portugal)

EUR million

		Dec.08		Dec.09
		Basel II Standard	Basel II IRB [1]	
Net Assets	(1)	**75,187**	**75,187**	**82,297**
Risk	(2)/(1)	79%	74%	79%
Risk Weighted Assets	(2)	**59,711**	**55,705**	**65,097**
Banking Book		53,791	49,987	57,426
Trading Book		2,878	2,878	4,003
Operational Risk		3,042	2,840	3,668
Regulatory Capital	(3)	**6,277**	**6,273**	**7,330**
TIER I	(4)	**3,948**	**3,946**	**5,409**
Core TIER I	(5)	3,412	3,412	5,232
Other		536	534	177
TIER II and Deductions		**2,329**	**2,327**	**1,921**
Core TIER I	(5)/(2)	**5.7%**	**6.1%**	**8.0%**
TIER I	(4)/(2)	**6.6%**	**7.1%**	**8.3%**
Solvency Ratio	(3)/(2)	**10.5%**	**11.3%**	**11.3%**

(1) Calculated under IRB Foundation

Core Tier I capital increased by EUR 1,820 million, totalling EUR 5,232 million in December 2009. The rights issue was particularly relevant for this increase, with a raise of EUR 1.2 billion. Retained earnings made a further contribution, since a significant part (EUR 325 million) of results was retained, while the reversal of revaluation reserves contributed with EUR 213 million.

Tier II capital declined by EUR 406 million, as a result of the reduction in the eligible amount of subordinated debt (EUR 271 million) and the deductions related to minority stakes in financial companies.

Risk weighted assets grew from EUR 55,705 million in December 2008 to EUR 65,358 million in December 2009 (+17.3%), surpassing the rise in net assets and thus driving up the risk index. The credit portfolio showed the highest increase by value (of EUR 7.6 billion), although in proportional terms the largest rise occurred in the trading portfolio (up by 39%). An analysis of the different components and evolution of risk weighted assets is in point 6.3.

7.4 Results

BES Group's 2009 net income reached EUR 522.1 million, corresponding to a return on equity (ROE) of 10.0%.

The 2009 results include the following non recurrent items: (i) capital gain on the sale of 24% of BES Angola (gross gain of EUR 191 million, or EUR 138 million net of tax) and (ii) additional credit provisions charged in light of the economic recession (gross value of EUR 106 million, or EUR 78 million net of tax). Excluding these items, net income for the year would have totalled EUR 462.1 million, representing a year-on-year increase of 14.9%.

Income Statement

EUR million

	2008	2009	Change Abs.	Change Rel. (%)
Net Interest Income	1,086.2	1,200.9	114.7	10.6%
+ Fees and Commissions	636.2	717.9	81.7	12.8%
= Commercial Banking Income	**1,722.4**	**1,918.8**	**196.4**	**11.4%**
+ Capital Markets and Other Results	165.7	530.6	364.9	....
= Banking Income	**1,888.1**	**2,449.4**	**561.3**	**29.7%**
- Operating Costs	1,001.6	1,055.7	54.1	5.4%
= Operating Income	**886.5**	**1,393.7**	**507.2**	**57.2%**
- Net Provisions	375.8	708.8	333.0	88.6%
Credit	274.4	539.9	265.5	96.7%
Securities	58.1	73.0	14.9	25.6%
Other	43.3	95.9	52.6	....
= Income Before Taxes	**510.7**	**684.9**	**174.2**	**34.1%**
- Taxes	83.5	109.8	26.3	31.5%
= Income After Taxes	**427.2**	**575.1**	**147.9**	**34.6%**
- Minority Interests	24.9	53.0	28.1	....
= Net Income	**402.3**	**522.1**	**119.8**	**29.8%**

Income Statement – Domestic and International Breakdown

EUR million

	Domestic Activity			International Activity		
	2008	2009	Chg(%)	2008	2009	Chg(%)
Net Interest Income	833.1	861.8	3.4	253.1	339.1	34.0
+ Fees and Commissions	499.9	567.7	13.6	136.3	150.2	10.2
= Commercial Banking	**1,333.0**	**1,429.5**	**7.2**	**389.4**	**489.3**	**25.7**
+ Capital, Markets & Others	103.3	382.9	....	62.4	147.7	....
= Banking Income	**1,436.3**	**1,812.4**	**26.2**	**451.8**	**637.0**	**41.0**
- Operating Costs	816.9	834.2	2.1	184.7	221.5	19.9
= Operating Income	**619.4**	**978.2**	**57.9**	**267.1**	**415.5**	**55.5**
- Net Provisions	304.2	540.8	77.8	71.6	167.9	....
Credit	199.3	387.0	94.1	75.1	152.9	....
Securities	58.1	71.8	23.6	0.0	1.1	....
Other	46.8	82.0	75.1	- 3.5	13.9	....
= Income Before Taxes and Minorities	**315.2**	**437.4**	**38.8**	**195.5**	**247.6**	**26.6**
- Taxes	50.6	88.9	75.8	32.9	21.0	-36.2
= Income After Taxes	**264.6**	**348.5**	**31.7**	**162.6**	**226.6**	**39.4**
- Minority Interests	5.5	5.7	3.3	19.4	47.3	143.9
= Net Income	**259.1**	**342.8**	**32.3**	**143.2**	**179.3**	**25.2**

Main factors that contributed to the Group's consolidated results:

- sustained and consistent commercial banking income growth (+11.4% YoY), underpinned by net interest income and fees and commissions growth of 10.6% and 12.8%, respectively;
- operating costs control with an increase of 5.4% (+1.7% excluding post employment benefits), supporting the continued improvement of productivity and efficiency levels; and
- reinforcement of credit provisions, in line with the Group's traditionally prudent assessment of risks, namely of credit, lifting provisions to 3.07% of total loans (Dec. 08: 2.38%).

Activity Results: Domestic and International Business

BES Group's international presence has been one of the mainstays of the performance achieved. Net income generated by the international units was up by 25.2%, to EUR 179.3 million, representing 39% of consolidated recurrent net income (excluding the non recurrent items attributed to the domestic activity).

Banking income from the international business grew by 41.0%, surpassing the increase in operating costs (+19.9%).

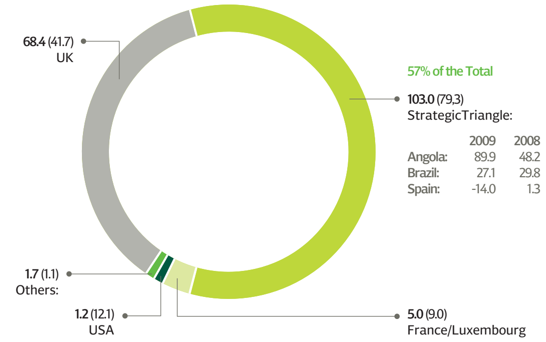
The credit provisions doubled when compared to 2008 (from EUR 75.1 million to EUR 152.9 million) and were particularly significant in Spain and the United Kingdom, conditioning the international area's contribution to the Group's net income.

Nearly all the geographies where BES operates posted profits, with the main contributors being Angola, Brazil and the United Kingdom.

Domestic activity growth (+32.3%) was influenced by non recurrent factors, without which the net income would have increased by 9.2%.

International Area's Contribution to Net Income

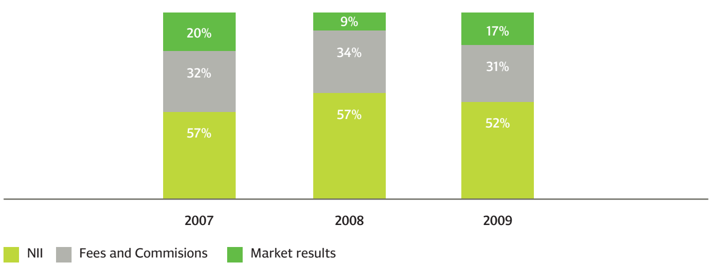
( ) 2008 (EUR million)



a. Banking Income

Commercial banking income, i.e., income of a more recurrent nature, had a significant performance, growing by 11.4%, to EUR 1,918.8 million. In addition to gains obtained in the financial markets, capital markets and other results include the capital gain on the sale of 24% of BES Angola. Excluding this non recurrent effect, the structure of banking income shows a decline in the relative weight of both net interest income and fees and commissions, the first decreasing from 58% to 52% and the second from 34% to 31%. On the other hand, and in line with their historical weight in banking income, capital markets and other results increased their contribution from 9% to 17%.

Banking Income Breakdown



Note: the 2009 banking income excludes non recurrent items, namely the sale of 24% of BES Angola

b. Net Interest Income and net interest margin

The downward trend of market interest rates (the Euribor reached its lowest value ever at year-end, at 0.7%), combined with a risk adjusted pricing policy, the widespread increase in funding costs, and the strategic decision to anticipate to 2009 part of the refinancing needs of 2010, all contributed to influence the performance of the net interest margin, which reached 1.77% in 2009 (1.76% in 2008).

Net interest income reached EUR 1,201 million, a year-on-year increase of EUR 115 million (+10.6%) mainly underpinned by volume effect (+ EUR 109 million).

EUR million

Net Interest Income	Dec.08	Dec.09	Abs. Change
Revenues (Interests Received)	**3,769**	**2,937**	**- 832**
Customer Loans	2,905	2,195	- 710
Other Placements	864	742	- 122
Costs (Interests Paid)	**2,683**	**1,736**	**- 947**
Customer Funds	697	464	- 233
Other Funds	1,986	1,272	- 714
Net Interest Income	**1,086**	**1,201**	**115**

Interest revenues decreased by EUR 832 million, mainly through the reduction in revenues from customer loans. The reduction in interest costs (EUR 947 million), is mainly explained by costs incurred in the money and capital markets. The 115 million increase in net interest income is backed by the higher reduction of interests paid vis-à-vis the decrease of interests received. Net interest margin was flat year-on-year.

EUR million

Net Interest Income and Net Interest Margin	2008			2009		
	Average volume	Rate (%)	Revenues/ Costs	Average volume	Rate (%)	Revenues/ Costs
Interest Earning Assets	61,788	6.10	3,769	67,849	4.33	2,937
Customer Loans	45,658	6.36	2,905	48,579	4.52	2,195
Other Placements	16,130	5.36	864	19,270	3.85	742
Other	-	-	-	169	-	-
INTEREST EARNING ASSETS & OTHER	**61,788**	**6.10**	**3,769**	**68,018**	**4.32**	**2,937**
Interest Bearing Liabilities	61,746	4.35	2,683	68,018	2.55	1,736
Customer Funds	22,715	3.07	697	24,515	1.89	464
Other Funds	39,031	5.09	1,986	43,503	2.92	1,272
Other	42	-	-	-	-	-
INTEREST BEARING LIABILITIES & OTHER	**61,788**	**4.34**	**2,683**	**68,018**	**2.55**	**1,736**
NII / NIM		**1.76**	**1,086**		**1.77**	**1,201**

The average rate paid for financial assets declined from 6.10% to 4.32%, which is in line with market trends (the average 3-month Euribor dropped from 4.63% in 2008 to 1.23% in 2009), but is only half the reduction of the market's reference rate. This performance was largely influenced by an adjustment of credit pricing to reflect general credit risk deterioration and increase in funding costs.

Interest bearing liabilities became more expensive, with the average rate trending from a positive difference of 0.29 p.p. vs. the market's reference rate (4.63% - 4.34% = 0.29 p.p.) in 2008 to a negative difference of 1.32 p.p. (1.23% - 2.55% = -1.32 p.p.) in 2009. Improved market confidence allowed for some anticipation of debt issues planned for 2010, a measure which is expected to have a positive impact on net interest margin.

The increase in net interest income can also be explained by the effect of prices and volume and the joint price/volume effect, as shown in the following table.

EUR million

Price versus Volume effect	Volume Effect	Price Effect	Volume/ Price Effect	Change
Interest Earning Assets	380	-1,101	-111	-832
Interest Bearing Liabilities	271	-1,106	-112	-947
Net Interest Income	**109**	**5**	**1**	**115**

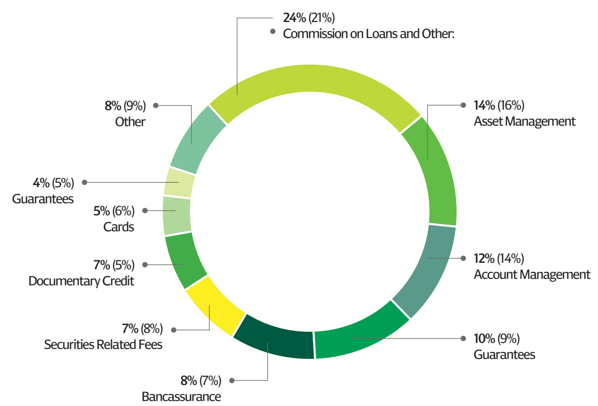
The EUR 115 million increase in net interest income was underpinned by the volume effect (EUR 109 million), with average interest earning assets rising by 10%, and to a lower extent by the price and joint price/volume effects (EUR 6 million).

c. Fees and Commissions

Fees and commissions totalled EUR 717.9 million, a year-on-year increase of 12.8% (EUR 81.7 million).

Breakdown of Fees and Commissions

(2008 data)



This performance was backed by the diversification of revenue sources, innovation in products and services (e.g. "BES Express Bill" service), improved service quality and the implementation of customer-centric policies (the complaint monitoring and the service level follow-up systems).

Main highlights of the year in fees and commissions are:

- considerable growth of commissions from international trade, reflecting the Group's effort to support the internationalisation of the Portuguese companies;
- increase in commissions on guarantees and commissions on loans of 26.7% and 27.8%, respectively;
- growth of fees and commissions on bancassurance (+29.1%), reflecting a permanent effort to renew the offer as well as efforts to raise customers' awareness to the need to subscribe retirement saving schemes to complement their pensions.

The more modest performance of fees and commissions on asset management is explained by the slow recovery of customer confidence in this type of investment.

d. Capital Markets and Other Results

Capital markets and other results totalled EUR 530.6 million, which compares with EUR 165.7 million in 2008.

EUR million

Capital Markets and Other Results	Dec.08	Dec.09	Change
Capital Markets Results and other	**228.8**	**389.0**	**160.2**
Interest Rate , FX	**114.5**	**132.1**	**17.6**
Interest Rate	262.2	234.9	-27.3
Credit	-144.5	-65.5	79.0
FX and other	-3.2	-37.3	-34.1
Equity	**114.3**	**256.9**	**142.6**
Trading	22.5	167.5	145.0
Income for Securities	91.8	89.4	-2.4
Other Results	**-63.1**	**141.6**	**204.7**
Total	**165.7**	**530.6**	**364.9**

Capital markets results totalled EUR 389 million. During the first quarter of 2009 uncertainty and prospects of an economic recession were major concerns, as from the second quarter an overall climate of confidence was restored, after strong interventions in the markets by central banks, namely through liquidity facilities and repurchasing assets policies allied to the improvement of the main economic indicators.

Capital markets activities and results were influenced by the following main factors:

- continued expectations of a recovery in the main world economies;
- low interest rate environment along with the progressive withdrawal of non conventional measures such as quantitative easing, liquidity facilities and consequent increase in demand for assets;
- US dollar with a sharp positive correlation with higher risk appetite and strengthening of the main currencies of the emerging markets;
- credit spread narrowing and reduction of the liquidity premium in the debt markets, as measured by the difference between Credit Default Swap spreads and the spreads implicit in the bonds traded (a brief increase in volatility stemmed from the problems occurred in Dubai);
- lower risk aversion sentiment associated to the excess liquidity accumulated in the market, inducing growing demand for various assets classes, although some, such as ABSs, continued to show negative performances;
- strong performance of the equity markets in general, underpinned by the disclosure of better than expected corporate results, combined with a decline in volatility associated to a sentiment of lower risk aversion.

In this context, and despite a relatively difficult start of the year, in view of the positive correlation between all asset classes as from the first quarter, capital markets results were supported by the maintenance of positions in interest rate and credit instruments, and by the overall recovery of the equity markets.

"Other results", in the amount of EUR 141.6 million, include the sale of a 24% stake in BES Angola to Portmill, Investimentos e Telecomunicações, for USD 375 million, the respective capital gain of EUR 191 million (EUR 138 million net of tax) being recognised under "Other Results".

Excluding this effect, capital markets and other results would total EUR 339.6 million, representing a year-on-year increase of EUR 173.9 million.

e. Operating Costs

The 5.4% increase in costs was related to the international activity expansion, where costs increased by 19.9%, and to the significant increase in amortisation of the actuarial differences of 2008.

Operating Costs (YoY change)

EUR million

	Domestic		International		Consolidated	
	Amount	Chg %	Amount	Chg %	Amount	Chg %
Staff Costs	441.3	5.7	124.6	20.5	565.9	8.6
Administrative Costs	321.4	-3.9	81.2	19.2	402.6	0.0
Depreciation	71.5	10.4	15.7	19.3	87.2	11.9
Total	**834.2**	**2.1**	**221.5**	**19.9**	**1,055.7**	**5.4**
Total excluding post employment benefits	**748.2**	**-2.7**			**969.7**	**1.7**

The investment in the new IT system in the international area, the simplification of processes, the centralisation of functions in highly specialised structures, the merger and integration of activities, and investment in new technologies, are examples of some of the key measures taken by the Group to rationalise the resources employed in its activity. These expenses aim to contribute to continued improvement in the levels of productivity and efficiency.

Domestic activity costs increased by 2.1% (dropping by 2.7% excluding post employment benefits). The international area costs were influenced by business expansion, which required reinforcing the staff with 74 new employees.

EUR million

Staff Costs	**2008**	**2009**	**Change**	
			absolute	**relative**
Remunerations and social charges	473.4	479.9	6.5	1.4%
Post employment benefits	47.7	86.0	38.3	80.4%
Total	**521.1**	**565.9**	**44.8**	**8.6%**

The Group's post-retirement liabilities were recalculated, adjusting the actuarial assumptions as the discount rate, and the rates of increase of salaries and pensions to current market conditions and wage policies.

Total post retirement liabilities, totalling EUR 2,125 million, are fully covered through the value of pension fund assets (EUR 2,198 million), with the coverage level increasing from 100% in 2008 to 103% at the end of 2009.

EUR million

Coverage of post-retirement liabilities	**Dec.08**	**Dec.09**
Liabilities for post retirement benefits	**2,065**	**2,125**
Coverage / Financing	**2,070**	**2,198**
Value of Plan Assets at the end of the period	2,057	2,198
Values on Balance Sheet	13	-
Coverage	**100%**	**103%**

The Group's contribution to the pension funds totalled EUR 34 million in 2009. On balance sheet actuarial differences outside the corridor reached EUR 620 million and will be amortised over a period of 15 years in staff costs.

The pension funds' good performance was determining for the reduction of actuarial differences outside the corridor from EUR 765 million in 2008 to EUR 620 million in 2009, and will have positive effects in capital ratios and staff costs in 2010 onwards.

EUR million

On Balance sheet actuarial differences with amortisation in the future	**Dec.08**	**Dec.09**
Initial Balance	**328**	**971**
Changes of the year	643	- 132
Final Balance	**971**	**839**
of which:		
inside the corridor	206	219
outside the corridor	765	620

The general administrative costs were contained (zero growth) as a result of the cost cutting and streamlining measures implemented. Depreciation increased by 11.9% due to investments in IT.

f. Productivity and Efficiency

Activity growth combined with costs control continued to drive productivity gains, with operating costs as a percent of average net assets decreasing to 1.36%, from 1.40% in 2008.

EUR million

Productivity and Efficiency Indicators	**2008**	**2009**	**Change**
Cost to Income	53.0%	43.1%	-9.9p.p.
Cost to Income (excluding markets)	58.2%	55.0%	-3.2p.p.
Operating Costs/Average Net Assets	1.40%	1.36%	-0.04p.p.
Total Assets* per Employee (EUR 000)	10,479	11,381	8.6%

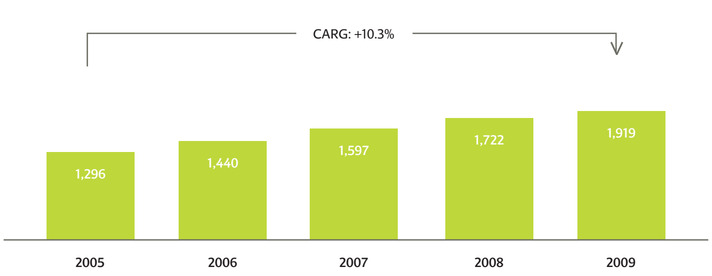
* Net Assets + Asset Management + Off-balance Sheet Funds + Securitised Credit

Efficiency also improved significantly, with the total Cost to income reducing 9.9 percentage points to 43.1% and the Cost to Income ex-markets declining by 3.2 percentage points to 55.0%.

By consolidating its capacity to generate revenues of a recurrent nature, while keeping the increase in costs under control, the Group has consistently improved efficiency levels.

Evolution of Commercial Banking Income

(EUR million)



Evolution of Cost to Income

g. Provisions

The general increase in provisions of 2009, which amounted to EUR 708.8 million, EUR 333 million more than in previous year. Given the current context, this amount includes an additional charge of EUR 106 million for credit.

EUR million

Provision Charges	2008	2009	Absolute Chg
Credit	274.4	539.9	265.5
Securities	58.1	73.0	14.9
Other Risks and Charges	43.3	95.9	52.6
TOTAL	375.8	708.8	333.0

Consequently, the credit provisioning charge increased to 1.07% of the loan portfolio (0.86%, excluding the supplementary charge), which compares with 0.57% in the previous year.

EUR million

Credit Provision Charge Evolution	2008	2009	Change	
			absolute	relative
Customer Loans (gross)	48,198	50,531	2,333	4.8%
Provisions	274.4	539.9	265.5	96.7%
Normal	274.4	433.9	-	-
Extraordinary	-	106.0	-	-
Provision charge				
Total	**0.57%**	**1.07%**	**0.50pp**	
Excluding Extraordinary	0.57%	0.86%	0.29pp	

Additionally, impairment signs in specific debt instrument positions led to a charge of provisions for securities in the amount of EUR 73 million (Dec. 08: EUR 58.1 million).

Other provision charges totalled EUR 95.9 million and represent contingencies duly identified as a consequence of the normal activity of the Group. The coverage of some impaired assets, namely of real estate received during the loan recovery process, totalled EUR 37 million during the year.

7.5 Profitability

The 2009 net consolidated income (EUR 522.1 million) corresponds to an average return on equity (ROE) of 10.0% and to a return on assets (ROA) of 0.66%, which are higher than 2008 levels.

data in%

Profitability Breakdown	2008	2009	Change
Average Rate of Interest Earning Assets	6.10	4.32	-1.78
- Average Rate of Interest Bearing Liabilities	4.34	2.55	-1.79
= Net Interest Margin	**1.76**	**1.77**	**0.01**
+ Commissions Profitability	1.03	1.06	0.03
+ Capital Markets and Other	0.27	0.78	0.51
= Business Margin	**3.06**	**3.60**	**0.54**
- Operating Costs	1.62	1.55	-0.07
- Provisions	0.61	1.04	0.43
- Minority Interests and Other	0.18	0.24	0.06
= Profitability	**0.65**	**0.77**	**0.12**
x Financial Assets	0.87	0.86	-0.01
= RETURN ON ASSETS (ROA)	**0.56**	**0.66**	**0.10**
x Applications Multiplier	17.32	15.07	-2.25
= RETURN ON EQUITY (ROE)	**9.76**	**10.00**	**0.24**

This positive performance, achieved in a very negative European economic context, was underpinned by:

- the consolidation of the Group's international expansion strategy to high growth potential emerging countries which offer good prospects for the Portuguese companies;
- a diversification of revenue sources;
- a tight control of operating costs;
- the conservative financial management of the Bank;
- the reinforcement of solvency levels, namely achieved through the rights issue; and
- a prudent and integrated control of risks, namely of credit.

With the capital increase operation constituting a high point in the consolidation of BES Group's position and standing in the main financial markets, the Board of Directors believes that the conditions are in place to surmount the new challenges and increased risks triggered by the recent financial and economic crisis.

7.6 Financial Analysis of Banco Espírito Santo

KEY INDICATORS	SIMBOL.	2005	2006	2007	2008	2009
BALANCE (Eur million)						
Total Assets [1]	TA	59,643	68,773	80,015	89,641	98,689
Net Assets	NA	44,643	50,537	58,020	67,425	74,715
Interesting Earning Assets (average)	IAE	29,787	38,147	44,327	52,359	60,063
Capital and Reserves (average)	KP	1,821	2,753	3,419	3,610	4,585
INCOME STATEMENT (EUR million)						
Net Interest Income	NII	412.9	627.2	723.9	799.1	909.1
+ Fees and Commissions	FC	327.9	394.8	404.2	408.9	468.7
= Commercial Banking Income	CBI	740.8	1,022.0	1,128.1	1,208.0	1,377.8
+ Capital Markets and Other Results	CMR	260.4	176.6	367.1	71.9	475.8
= Banking Income	BI	1,001.2	1,198.6	1,495.2	1,279.9	1,853.6
- Operating Costs	OC	547.4	663.0	724.1	765.9	812.2
- Provisions and Taxes	ProvT	263.7	278.1	276.4	302.1	672.6
= Net Income	NI	190.1	257.5	494.7	211.9	368.8
PROFITABILITY (%)						
Net Interest Margin	NII / IEA	1.39	1.64	1.63	1.53	1.51
+ Return on Fees and Commissions	FC / IEA	1.10	1.03	0.91	0.78	0.78
+ Return on Capital Market Results	CM / IEA	0.87	0.46	0.83	0.14	0.79
= Business Margin	BI / IEA	3.36	3.14	3.37	2.44	3.09
- Weighting of Operating Costs	OC / IEA	1.84	1.74	1.63	1.46	1.35
- Weighting of Provisions and Taxes	Prov / IEA	0.89	0.73	0.62	0.58	1.12
= Return on Financial Assets	RFA / IEA	0.64	0.68	1.12	0.40	0.61
x Weighting of Interest Earning Assets	IEA/ NA	0.87	0.86	0.85	0.85	0.84
= Return on Assets (ROA)	NP / NA	0.56	0.58	0.94	0.34	0.52
x Placements Multiplier	NA / KP	18.73	16.12	15.32	17.03	15.55
= Return on Equity(ROE)	NP / KP	10.44	9.35	14.47	5.87	8.04

(1) Net Assets + Asset Management + Securitised Credit

7.6.1 Activity

Customer funds had a strong performance, with on-balance sheet customer funds growing by 19.5%, mainly driven by the increase in certificates of deposit. Off-balance sheet customer funds increased 13.9%, reversing the negative trend of 2008.

Customer loans (including securitised loans) rose by 2.9%.

EUR million

Activity Indicators	Dec.08	Dec.09	Chg %
Total Assets [1]	**89,641**	**98,689**	**10.1**
Net Assets	**67,425**	**74,715**	**10.8**
Customer Loans (including securitised)	**47,597**	**48,999**	**2.9**
Loans to Individuals	17,131	17,135	0.0
- Mortgage	14,428	14,422	0.0
- Other Loans to Individuals	2,703	2,713	0.4
Corporate Lending	30,466	31,864	4.6
Total Customer Funds(A+B)	**45,043**	**53,026**	**17.7**
On-Balance Sheet Customer Funds(A)	30,747	36,736	19.5
- Deposits and Similars	26,032	30,868	18.6
Deposits	22,895	22,594	-1.3
Certificates and Deposits	3,137	8,274	163.8
- Debt Securities placed with Clients	4,715	5,868	24.5
Off-Balance Sheet Customer Funds(B)	14,296	16,290	13.9

(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities + Securitised Credit

Corporate lending grew by 4.6%, (EUR 1.4 billion) while Loans to individuals remained flat when compared to 2008.

Corporate loans grew by 4.6%, to EUR 1.4 billion, while Loans to individuals remained relatively flat when compared to 2008.

Mortgage loans accounted for 29% of the loan portfolio (30% in 2008), while corporate credit increased its share of the total to 65% (64% in 2008), reflecting BES's strong foothold in the Portuguese corporate fabric.

As a consequence of the economic crisis, at year-end the loan portfolio revealed a deteriorating trend in loan loss levels though overall at good levels: overdue loans over 90 days increased to 1.89% of total loans, with the respective coverage standing at 181.4%.

It is worth stressing the favourable evolution of total balance of credit provisions over total loans, which has been consistently increasing, rising by 76 basis points year-on-year, to 3.42%,

EUR million

Asset Quality	Dec.08	Dec.09	Change	
			Abs.	Rel. (%)
(EUR million)				
Customer Loans (gross)	39,677	41,315	1,638	4.1%
Overdue Loans	605.4	851.7	246.3	40.7%
Overdue Loans > 90 days	506.7	779.1	272.4	53.8%
Overdue & Doubtful Loans (BoP)[a]	736.3	1,113.0	376.7	51.2%
Provisions for Credit	1,055.4	1,413.2	357.8	33.9%
(%)				
Overdue Loans /Customer Loans (gross)	1.53	2.06	0.53p.p.	
Overdue Loans >90 days / Customer Loans (gross)	1.28	1.89	0.61p.p.	
Overdue & Doubtful Loans(a)/ Customer Loans (gross)	1.86	2.69	0.83p.p.	
Coverage of Overdue Loans	174.3	165.9	-8.4p.p.	
Coverage of Overdue Loans > 90 days	208.3	181.4	-26.9p.p.	
Coverage of Overdue & Doubtful Loans	143.3	127.0	-16.3p.p.	
Provisions for Credit (Balance) / Customer Loans	2.66	3.42	0.76p.p.	

(a) According to BoP Circular Letter 99/2003

7.6.2 Results and Productivity

Net income of BES in 2009 was EUR 368.8 million, corresponding to a year--on-year increase of 74.0%. This result incorporates the effect the capital gain on the sale of 24% of BES Angola (EUR 138 million net of tax); and additional credit provisions charged in light of the economic recession (EUR 78 million net of tax). Excluding these items, net income for the year would have totalled EUR 308.8 million, representing a year-on-year increase of 45.7%.

Commercial Banking income, which translates recurrent income generation, increased by 14.1% year-on-year, supported by both net interest income and fees and commissions growth.

EUR million

Activity Results	2008	2009	Change	
			Abs.	Rel.(%)
Net Interest Income	**799.1**	**909.1**	**110.0**	**13.8**
+ Fees and Commissions	408.9	468.7	59.8	14.6
= **Commercial Banking Income**	**1,208.0**	**1,377.8**	**169.8**	**14.1**
+ Capital Markets and Other Results	71.9	475.8	403.9	561.8
= **Banking Income**	**1,279.9**	**1,853.6**	**573.7**	**44.8**
- Operating Costs	765.9	812.2	46.3	6.0
= **Operating Income**	**514.0**	**1,041.4**	**527.4**	**102.6**
- Net Provisions	285.2	606.5	321.3	112.7
Credit	209.2	461.7	252.5	120.7
Securities	37.4	64.3	26.9	....
Others	38.6	80.5	41.9	108.5
= **Income before Taxes**	**228.8**	**434.9**	**206.1**	**90.1**
- Taxes	16.9	66.1	49.2	291.1
= **Net Income**	**211.9**	**368.8**	**156.9**	**74.0**

The year's provision charge totalled EUR 606.5 million, up by 113% year-on-year. Provisions for credit increased by 121%, while the impairment for securities was reinforced by EUR 64.3 million. Other provisions include provisions for impairment losses in property received in lieu of payment of bad loans.

Productivity indicators benefited from the increase in commercial banking income and trading results, on the one hand, and on the other from moderate increase in operating costs. Hence the Total cost to income and the Commercial cost to income dropped by 16 p.p. and 4.5 p.p., respectively. Total assets per employee increased by 12.2%.

EUR million

Productivity and Efficiency Indicators	Dez.08	Dez.09	Variação
Cost to Income	59.8%	43.8%	-16.0 p.p.
Cost to Income (excluding Capital Markets)	63.4%	58.9%	-4.5 p.p.
Total Assets(1) per Employee (€,000)	12,867	14,435	12.2%

(1) Net Assets + Asset Management + Secutitised Credit

7.6.3 Activity of the International Branches

BES's branches abroad support the Group in the development of its international strategy. A description of the activity of BES's international branches in 2009 is described below.

Branch in Spain

In 2009 BES's branch in Spain posted a strong increase in revenues, backed by the performance of interest rates and a proactive management of margins, combined with cost containment efforts. Operating income reached EUR 58 million. The reinforcement of provisions in light of the economic situation in Spain was a relevant conditioning factor to the results. During the year the branch made some restructurings at the organisation level, namely in its area of risk analysis, while also reinforcing the commercial team and developing a very competitive offer of products, which included the launch of the CR 3.15% and CR 3.10% deposits, which were very successful in attracting new clients, also greatly benefiting from synergies with Portugal. Other initiatives to create an "Iberian Territory" included using the image of Cristiano Ronaldo for the first time in Spain. The BES brand attained maximum recognition levels, largely thanks to the campaigns "No sé donde estaré dentro de 3 años" ("I don't know where I'll be in three years") and "Lo que se dice de Ronaldo en Madrid" ("What they say about Ronaldo in Madrid").

In corporate banking, the branch further developed its international business capabilities, thus improving the services provided to clients operating not only in Portugal but also in the other geographies where the Group is present. This also allowed to establish relations with high potential clients, while maintaining a very prudent stance in risk allocation and management.

The process of revamping the premises was also continued, and the Valladolid and Seville units were refurbished to incorporate the new image.

London Branch

BES' London Branch concentrates its activity in wholesale banking in the European market. As a specialised credit unit, the Branch acts with a high degree of selectivity, maintaining a conservative risk management policy. In terms of wholesale funding and despite the sharp restriction on liquidity, the Branch maintained a significant role in raising funds, with Certificates of Deposit issuance growing by 204% since the beginning of the year. Underpinned by the increase in net interest income, banking income was up by 28% year-on-year, to which international trade finance operations gave a significant contribution, in line with the branch's strategy of expanding the Global Trade Finance business line abroad.

New York Branch

BES' New York branch concentrates its activity in wholesale banking, mainly in the US and Brazil. The branch has had a crucial role in terms of obtaining funds from American institutional and corporate clients, actively promoting the placement of the certificates of deposit programme (74% YoY increase) and commercial paper programme. The markets' adverse developments and continuous deterioration of the US economy required increased prudence in business and an emphasis on risk monitoring and management. Even so, the Branch registered positive net income for the year.

Cape Verde Branch

Activity in the Cape Verde Islands is concentrated on corporate banking and public/private sector investment in infrastructure (ports, roads, electricity and water) as well as on the tourism sector, where it mainly targets Portuguese companies with business links in Cape Verde. In 2009 the Branch's net income increased by 255% year-on-year, to EUR 2.5 million.

08 Financial Statements

8.1 Consolidated Financial Statements

Consolidated Balance Sheet

EUR million

	Dec.08	Dec.09
ASSETS		
Cash and deposits at Central Banks	2,027,318	2,192,317
Deposits with banks	664,410	610,574
Financial assets held for trading	3,690,162	4,459,484
Financial assets at fair value through profit or loss	2,161,813	1,002,301
Available-for-sale financial assets	7,094,111	8,531,600
Loans and advances to banks	4,531,983	7,997,807
(of which of the European system of Central Banks)	-	(3,750,026)
Loans and advances to customers	47,049,474	48,978,847
(Provisions)	(1,148,065)	(1,552,307)
Held-to-maturity investments	2,160,196	2,541,829
Financial assets with repurchase agreements	-	-
Hedging derivatives	936,290	455,115
Non-current assets held for sale	270,888	407,585
Investment propreties	-	-
Proprety and equipment	638,487	658,773
Intangible assets	124,216	137,885
Investments in associates	644,506	793,815
Current income tax assets	52,721	20,929
Deferred income tax assets	141,753	187,871
Other assets	2,998,400	3,320,468
TOTAL ASSETS	**75,186,728**	**82,297,200**
LIABILITIES		
Deposits from central banks	4,810,458	3,817,643
(of which of the European System of Central Banks)	(1,440,505)	(2,005,438)
Financial liabilities helding for trading	1 914,423	1,561,143
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	7,681,738	6,895,720
Due to customers	26,386,754	25,446,450
Debt securities issued	24,596,682	33,101,099
Financial liabilities to transferred assets	-	-
Hedging derivatives	727,475	253,148
Non core liabilities held for sale	12,827	21,609
Provisions	131,211	179,851
Current income tax liabilities	89,515	133,616
Deleted income tax liabilities	37,448	79,216
Capital instruments	-	-
Subordinated debt	2,828,983	2,639,071
Other liabilities	1,316,270	1,229,751
TOTAL LIABILITIES	**70,533,784**	**75,358,317**
EQUITY		
Share capital	2,500,000	3,500,000
Share premium	668,851	1,085,399
Other capital instruments	-	-
Treasury stock	(29,838)	(25,083)
Preference shares	600,000	600,000
Fair value reserve	(266,334)	300,833
Other reserves and retained earnings	624,472	672,063
Profit for the period attributable to equity holders of the bank	402,284	522,114
Prepaid dividends	-	-
Minority interests	153,509	283,557
TOTAL EQUITY	**4,652,944**	**6,938,883**
TOTAL LIABILITIES AND EQUITY	**75,186,728**	**82,297,200**

Chief Account

The Board of Directors

Consolidated Income Statement

EUR million

	Dec.08	Dec.09
Interest and similar income	4,880,694	3,837,533
Interest expense and similar charges	3,794,525	2,636,718
Net Interest Income	**1,086,169**	**1,200,815**
Dividend income	91,856	89,361
Fee and Commission income	709,359	786,453
Fee and Commission expense	110,153	106,311
Net gains from financial assets at fair value through profit or loss	(97,474)	(51,412)
Net gains from available-for-sale financial assets	213,378	189,239
Net gains from foreign exchange differences	25,619	58,533
Net gains/ (losses) from sale of other assets	(2,480)	156,909
Other operating income and expense	(7,873)	95,831
Operating income	**1,908,401**	**2,419,418**
Staff costs	521,050	565,895
General and administrative expenses	402,645	402,554
Depreciation and amortisation	77,906	87,261
Provisions impairment net of reversals	19,846	53,160
Loans impairment net of reversals	274,431	539,941
Impairment on other financial assets net of reversals	57,407	71,875
Impairment on other assets net of reversals	24,183	43,798
Negative consolidation differences	-	-
Equity accounted earnings	(20,290)	29,977
Net income before income tax and minorities	**510,643**	**684,911**
Income tax		
Current tax	150,984	178,681
Deferred Tax	(67,486)	(68,862)
Net income	**427,145**	**575,092**
ow: profit after taxes of discontinued operations	(1,466)	(10,326)
Minority interests	24,861	52,978
Consolidated net income for the period	**402,284**	**522,114**

Chief Account

The Board of Directors

8.2 Individual Financial Statements

Individual Balance Sheet

EUR million

	Dec.09			
	Amount before provisions, impairmentand and depreciations	Provisions, impairmentand, depreciations	Net amount	Dec.08
ASSETS				
Cash and deposits at Central Banks	1,686,023	-	1,686,023	1,755,753
Deposits with banks	322,297	-	322,297	337,637
Financial assets held for trading	3,344,104	-	3,344,104	2,874,846
Financial assets at fair value through profit or loss	922,558	-	922,558	2,021,218
Available-for-sale financial assets	7,278,179	103,719	7,174,460	7,218,865
Loans and advances to banks	12,048,795	256	12,048,539	7,120,800
Loans and advances to customers	41,315,103	935,942	40,379,161	39,049,784
Held-to-maturity investments	2,069,156	34,209	2,034,947	1,806,473
Repurchase agreements	-	-	-	-
Derivatives for risk management purposes	579,895	-	579,895	986,241
Non-current assets held for sale	398,512	49,772	348,740	247,880
Investment propreties	-	-	-	-
Proprety and equipment	1,070,316	667,381	402,935	411,234
Intangible assets	528,992	424,004	104,988	91,532
Investments in associates	1,808,490	107,892	1,700,598	1,038,474
Current income tax assets	5,009	-	5,009	48,497
Deferred income tax assets	336,877	-	336,877	279,119
Other assets	3,327,311	3,132	3,324,179	2,137,064
TOTAL ASSETS	**77,041,617**	**2,326,307**	**74,715,310**	**67,425,417**
LIABILITIES				
Deposits from central banks	3,378,514	-	3,378,514	4,710,444
Financial liabilities helding for trading	1,361,876	-	1,361,876	1,532,270
Other financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from banks	11,560,867	-	11,560,867	14,411,923
Due to customers	22,594,175	-	22,594,175	22,894,653
Debt securities issued	24,984,918	-	24,984,918	14,326,387
Financial liabilities to transferred assets	-	-	-	-
Derivatives for risk management purposes	370,338	-	370,338	796,523
Non core liabilities held for sale	-	-	-	-
Provisions	627,174	-	627,174	541,821
Current income tax liabilities	108,447	-	108,447	62,125
Deleted income tax liabilities	185,109	-	185,109	164,081
Equity instruments	-	-	-	-
Subordinated debt	3,419,742	-	3,419,742	3,473,819
Other liabilities	613,200	-	613,200	878,663
TOTAL LIABILITIES	**69,204,360**	**-**	**69,204,360**	**63,792,709**
EQUITY				
Share capital	3,500,000	-	3,500,000	2,500,000
Share premium	1,080,258	-	1,080,258	666,327
Other equity instruments	-	-	-	-
Treasury stock	(25,083)	-	(25,083)	(29,838)
Fair value reserve	213,390	-	213,390	(197,391)
Other reserves and retained earnings	373,540	-	373,540	481,732
Profit for the year	368,845	-	368,845	211,878
Dividens paid	-	-	-	-
TOTAL EQUITY	**5,510,950**	**-**	**5,510,950**	**3,632,708**
TOTAL LIABILITIES AND EQUITY	**74,715,310**	**-**	**74,715,310**	**67,425,417**

Chief Account

The Board of Directors

Income Statement

EUR million

	Dec.08	Dec.09
Interest and similar income	3,884,765	2, 982,768
Interest expense and similar charges	3,085,705	2,073,629
Net Interest Income	**799,060**	**909,139**
Dividend income	212,031	317,863
Fee and Commission income	492,083	562,252
Fee and Commission expense	97,169	114,347
Net gains from financial assets at fair value through profit or loss	(277,478)	(46,604)
Net gains from available-for-sale financial assets	233,976	180,381
Net gains from foreign exchange differences	(29,970)	(129,243)
Net gains from sale of other assets	(1,137)	204,562
Other operating income and expense	(51,515)	(30,449)
Operating Income	**1,279,881**	**1,853,554**
Staff costs	375,311	410,580
General and administrative expenses	325,656	327,896
Depreciation and amortisation	64,935	73,703
Provisions impairment net of reversals	59,976	97,170
Loans impairment net of reversals	166,040	406,384
Impairment on other financial assets net of reversals	37,370	64,278
Impairment on other assets net of reversals	21,796	38,669
Net income before tax	**228,797**	**434,874**
Income tax		
Current tax	82,393	149,068
Deferred tax	(65,474)	(83,039)
Net income	211,878	368,845
ow: net income after discontinued operations	(2,045)	(14,169)

Chief Account

The Board of Directors

09 Final Notes

9.1 Declaration of Conformity with the Financial Information Reported

In accordance with Article 245 (1-c)) of the Securities Code, the Board of Directors of Banco Espírito Santo, S.A., whose members are named hereunder, hereby declares that:

(i) the individual financial statements of Banco Espírito Santo, S.A. (BES) for the years ended December 31st, 2008 and 2009 were prepared in accordance with the Adjusted Accounting Standards (AAS), as determined by Bank of Portugal Notice no. 1/2005, of February 21st, 2005;
(ii) the consolidated financial statements of Grupo Banco Espírito Santo, S.A. (BES Group) for the years ended December 31st, 2008 and 2009 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in the European Union and transposed into Portuguese legislation through Decree-Law no. 35 /2005 of February 17th;
(iii) to the extent of their knowledge the financial statements referred in (i) and (ii) provide a true and appropriate image of the assets, liabilities, equity and earnings of respectively BES and BES Group, in accordance with the referred standards, and were approved by the Board of Directors at its meeting of February 26th, 2009;
(iv) the annual report describes faithfully the evolution of the businesses, the performance and the financial position of BES and BES Group in 2009, as well as the main risks and uncertainties with which they are faced.

9.2 Own Shares

In accordance with article 66 (5-d)) of the Companies Code, BES states that transactions involving the Bank's own shares in 2009 related exclusively to transactions carried out within the scope of its Share Based Incentive System (SIBA).

As described in detail in the attached Notes to the Financial Statements, the SIBA consists in the purchase of BES shares by the employees, with deferred payment.

	Number	Price(EUR)	Total (EUR)
Balance as at 31st Dec 2008	-	-	-
Transactions during the year*			
Purchases	1,202,820	12,016	14,453,576
Disposals	1,202,820	3,953	4,754,945
Balance as at 31st Dec 2009	-	-	-

* Includes stock exchange and OTC transactions

On December 31st, 2009, BES held EUR 25,083,000 accounted in "Treasury Stock", corresponding to 1,276,261 shares (0.11% of the share capital) traded within the scope of the SIBA.

9.3 Proposed distribution of Banco Espírito Santo Net Income

Under the terms of Article 66 (5-f) and for the purposes of Article 376 (1-b)) of the Companies Code, and pursuant to Article 31 of the Company's bylaws, the Board of Directors of Banco Espírito Santo proposes, for approval by the General Meeting, that the individual net earnings of Banco Espírito Santo be allocated as follows:

euros

For Legal reserve	37,000,000.00
For Distribution to Shareholders	163,333,333.24
To Other Reserves	168,511,324.03
Net Income	368,844,657.27

The dividend to be distributed on the 2009 net income corresponds to a gross value per share of EUR 0.14 applicable to all the shares representative of BES's share capital

The proposed dividend represents a consolidated payout ratio adjusted for non recurrent factors of 35.4% and a dividend yield of 3.1% at the year-end closing price.

9.4 Note of Recognition

The Board of Directors of Banco Espírito Santo wishes to express its recognition for the trust shown by its Clients and Shareholders, for the loyalty and dedication of its Employees and for the cooperation given by the governmental and supervision authorities.

Lisbon, February 26th, 2010

The Board of Directors of Banco Espírito Santo

Alberto Alves de Oliveira Pinto (Presidente)
Ricardo Espírito Santo Silva Salgado (Vice-Presidente)
Jean-Frédéric de Leusse (Vice-Presidente)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Luís António Burnay Pinto de Carvalho Daun e Lorena
Ricardo Abecassis Espírito Santo Silva
José Manuel Ruivo da Pena
Amílcar Carlos Ferreira de Morais Pires
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Bernard Octave Mary
Michel Joseph Paul Goutorbe
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Megre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca
Luiz Carlos Trabuco Cappi

II Financial Statements and Notes to the Financial Statements

LEE FRIEDLANDER b. 1934, USA. **"New York City"**, 2002 from the series, "America by Car". Gelatin silver print 50,8x40,6cm
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LEE FRIEDLANDER b. 1934, USA **"Las Vegas"**, 2002 from the series, "America by Car". Gelatin silver print 50.8x40,6cm

01 Consolidated Financial Statements and Notes to the Financial Statements

Consolidated Income Statement for the years ended December 2009 and 2008

in thousands of euro

	Notes	31.12.2009	31.12.2008
Interest and similar income	5	3,837,533	4,880,694
Interest expense and similar charges	5	2,636,718	3,794,525
Net interest income		**1,200,815**	**1,086,169**
Dividend income		89,361	91,856
Fee and commission income	6	786,453	709,359
Fee and commission expenses	6	(106,311)	(110,153)
Net gains/ (losses) from financial assets and financial liabilities at fair value through profit or loss	7	(51,412)	(97,474)
Net gains from available-for-sale financial assets	8	189,239	213,378
Net gains from foreign exchange differences	9	58,533	25,619
Net gains/ (losses) from the sale of other assets		(27,377)	(4,153)
Other operating income and expense	10	95,831	(7,873)
Operating income		**2,235,132**	**1,906,728**
Staff costs	11	565,895	521,050
General and administrative expenses	13	402,554	402,645
Depreciation and amortisation	25 and 26	87,261	77,906
Provisions net of reversals	33	53,160	19,846
Loans impairment net of reversals	21	539,941	274,431
Impairment on other financial assets net of reversals	19, 20 and 22	71,875	57,407
Impairment on other assets net of reversals	24, 26 and 28	43,798	24,183
Operating expenses		**1,764,484**	**1,377,468**
Gains on disposal of investments in subsidiaries and associates	1	184,286	1,673
Share of profit of associates	27	29,977	(20,290)
Profit before income tax		**684,911**	**510,643**
Income tax			
Current tax	34	178,681	150,984
Deferred tax	34	(68,862)	(67,486)
		109,819	**83,498**
Profit for the year		**575,092**	**427,145**
Attributable to equity holders of the Bank		**522,114**	**402,284**
Attributable to minority interest	**38**	**52,978**	**24,861**
		575,092	**427,145**
Basic (in euro)	14	0.49	0.74
Diluted (in euro)	14	0.49	0.74

The following notes form an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income for the years ended 31 December 2009 and 2008

in thousands of euro

	31.12.2009	31.12.2008
Profit for the year		
Attributable to equity holders of the Bank	522,114	402,284
Attributable to minority interest	52,978	24,861
	575,092	**427,145**
Other comprehensive income for the year		
Exchange differences	(31,861)	(3,713)
Deferred taxes	13,767	(2,247)
	(18,094)	**(5,960)**
Available-for-sale financial assets		
Gains/ (losses) arising during the year	826,209	(1,070,839)
Reclassification adjustments for gains/ (losses) included in the profit or loss	(160,370)	(155,974)
Deferred taxes	(96,985)	291,642
	568,854	**(935,171)**
Total comprehensive income for the year	**1,125,852**	**(513,986)**
Attributable to equity holders of the Bank	**1,076,121**	**(512,921)**
Attributable to minority interest	**49,731**	**(1,065)**
	1,125,852	**(513,986)**

The following notes form an integral part of these consolidated financial statements

Consolidated Balance Sheet as at 31 December 2009 and 2008

in thousands of euro

	Notes	31.12.2009	31.12.2008
Assets			
Cash and deposits at central banks	15	2,192,317	2 027,318
Deposits with banks	16	610,574	664,410
Financial assets held for trading	17	4,459,484	3 690,162
Other financial assets at fair value through profit or loss	18	1,002,301	2 161 813
Available-for-sale financial assets	19	8,531,600	7 094 111
Loans and advances to banks	20	7,997,807	4 531 983
Loans and advances to customers	21	48,978,847	47 049 474
Held-to-maturity investments	22	2,541,829	2 160 196
Derivatives for risk management purposes	23	455,115	936 290
Non-current assets held for sale	24	407,585	270 888
Property and equipment	25	658,773	638 487
Intangible assets	26	137,885	124 216
Investments in associates	27	793,815	644 506
Current income tax assets		20,929	52 721
Deferred income tax assets	34	187,871	141 753
Other assets	28	3,320,468	2 998 400
Total Assets		**82,297,200**	**75 186 728**
Liabilities			
Deposits from central banks	29	3,817,643	4 810 458
Financial liabilities held for trading	17	1,561,143	1 914 423
Deposits from banks	30	6,895,720	7 681 738
Due to customers	31	25,446,450	26 386 754
Debt securities issued	32	33,101,099	24 596 682
Derivatives for risk management purposes	23	253,148	727 475
Non-current liabilities held for sale	24	21,609	12 827
Provisions	33	179,851	131 211
Current income tax liabilities		133,616	89 515
Deferred income tax liabilities	34	79,216	37 448
Subordinated debt	35	2,639,071	2 828 983
Other liabilities	36	1,229,751	1 316 270
Total Liabilities		**75,358,317**	**70 533 784**
Equity			
Share capital	37	3,500,000	2 500 000
Share premium	37	1,085,399	668 851
Treasury stock	37	(25,083)	(29 838)
Preference shares	37	600,000	600 000
Fair value reserve	38	300,833	(266 334)
Other reserves and retained earnings	38	672,063	624 472
Profit for the year attributable to equity holders of the Bank		522,114	402 284
Total Equity attributable to equity holders of the Bank		**6,655,326**	**4 499 435**
Minority interest	38	283,557	153 509
Total Equity		**6,938,883**	**4 652 944**
Total Equity and Liabilities		**82,297,200**	**75 186 728**

The following notes form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity for the years ended 31 December 2009 and 2008

in thousands of euro

	Share capital	Share premium	Treasury stock	Preference shares	Fair value reserve	Other reserves and retained earnings	Profit for the year attributable to equity holders of the Bank	Total equity attributable to equity holders of the Bank	Minority interest	Total equity
Balance as at 31 December 2007	**2,500,000**	**668,851**	**(41,437)**	**600,000**	**646,701**	**291,392**	**607,069**	**5 272 576**	**141 131**	**5 413 707**
Other movements recognised directly in Equity:										
Changes in fair value, net of taxes	-	-	-	-	(913,035)	-	-	(913,035)	(22,136)	(935,171)
Exchange differences	-	-	-	-	-	(2,170)	-	(2,170)	(3,790)	(5,960)
Profit for the year	-	-	-	-	-	-	402,284	402,284	24,861	427,145
Total gains and losses recognised in the year	**-**	**-**	**-**	**-**	**(913,035)**	**(2,170)**	**402,284**	**(512,921)**	**(1,065)**	**(513,986)**
Transfer to reserves	-	-	-	-	-	368,213	(368,213)	-	-	-
Dividends on ordinary shares [a)]	-	-	-	-	-	-	(238,856)	(238,856)	-	(238,856)
Dividends on preference shares [b)]	-	-	-	-	-	(33,480)	-	(33,480)	-	(33,480)
Changes in treasury stock (see Note 37)	-	-	11,599	-	-	-	-	11,599	-	11,599
Share based payment scheme, net of taxes (see Note 12)	-	-	-	-	-	517	-	517	-	517
Other changes in minority interest (see Note 38)	-	-	-	-	-	-	-	-	13,443	13,443
Balance as at 31 December 2008	**2,500,000**	**668,851**	**(29,838)**	**600,000**	**(266,334)**	**624,472**	**402,284**	**4,499,435**	**153,509**	**4,652,944**
Other movements recognised directly in Equity:										
Changes in fair value, net of taxes	-	-	-	-	567,167	-	-	567,167	1,687	568,854
Exchange differences	-	-	-	-	-	(13,160)	-	(13,160)	(4,934)	(18,094)
Profit for the year	-	-	-	-	-	-	522,114	522,114	52,978	575,092
Total gains and losses recognised in the year	**-**	**-**	**-**	**-**	**567,167**	**(13,160)**	**522,114**	**1,076,121**	**49,731**	**1,125,852**
Capital increase	1,000,000	416,548	-	-	-	(228,663)	-	1,187,885	-	1,187,885
- Capital decrease	(2,000,000)	-	-	-	-	2,000,000	-	-	-	-
- 666 666 666 shares issued	666,667	533,333	-	-	-	-	-	1,200,000	-	1,200,000
- Incorporations of reserves	2,333,333	(104,670)	-	-	-	(2,228,663)	-	-	-	-
- Costs with capital increase, net of taxes	-	(12,115)	-	-	-	-	-	(12,115)	-	(12,115)
Transfer to reserves	-	-	-	-	-	322,628	(322,628)	-	-	-
Dividends on ordinary shares [a)]	-	-	-	-	-	-	(79,656)	(79,656)	-	(79,656)
Dividends on preference shares [b)]	-	-	-	-	-	(33,480)	-	(33,480)	-	(33,480)
Changes in treasury stock (see Note 37)	-	-	4,755	-	-	-	-	4,755	-	4,755
Share based payment scheme, net of taxes (see Note 12)	-	-	-	-	-	266	-	266	-	266
Other changes in minority interest (see Note 38)	-	-	-	-	-	-	-	-	80,317	80,317
Balance as at 31 December 2009	**3,500,000**	**1,085,399**	**(25,083)**	**600,000**	**300,833**	**672,063**	**522,114**	**6,655,326**	**283,557**	**6,938,883**

a) Corresponds to a dividend per share of euro 0.16 and euro 0.48 in 2009 and 2008, respectively, distributed to the ordinary shares outstanding.
b) Corresponds to a preferred dividend, based on an annual interest rate of 5.58%, related to preference shares issued by BES Finance (see Note 37).

The following notes form an integral part of these consolidated financial statements

Consolidated Cash Flow Statement for the years ended 31 Dezember 2009 and 2008

in thousands of euro

	Notes	31.12.2009	31.12.2008
Cash flows from operating activities			
Interest and similar income received		3,870,807	4 782,932
Interest expense and similar charges paid		(2,659,680)	(3,733,296)
Fees and commission received		799,450	723,499
Fees and commission paid		(115,645)	(112,970)
Recoveries on loans previously written off		16,442	21,954
Contributions to pensions' fund		(34,209)	(537,882)
Cash payments to employees and suppliers		(1,041,955)	(475,620)
		835,210	**668,617**
Changes in operating assets and liabilities:			
Deposits with central banks		(1,028,824)	2,650,532
Financial assets at fair value through profit or loss		(128,946)	(164,940)
Loans and advances to banks		(3,475,332)	3,675,088
Deposits from banks		(738,645)	553,681
Loans and advances to customers		(2,832,085)	(5,052,512)
Due to customers		(901,056)	2,588,770
Derivatives for risk management purposes		(100,526)	7,000
Other operating assets and liabilities		522,549	(855,782)
Net cash from operating activities before income tax		**(7,847,655)**	**4,070,454**
Income taxes paid		(102,788)	(165,618)
Net cash from operating activities		**(7,950,443)**	**3,904,836**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	1	(179,428)	(74,756)
Disposal of subsidiaries and associates	1	265,457	6133
Dividends received		93,110	120,444
Acquisition of available-for-sale financial assets		(33,650,788)	(26,539,016)
Sale of available-for-sale financial assets		32,767,567	24,174,702
Held to maturity investments		(394,728)	(1,188,807)
Acquisition of tangible and intangible assets		(137,696)	(228,762)
Sale of tangible and intangible assets		3,718	522
Net cash from investing activities		**(1,232,788)**	**(3,729,540)**
Cash flows from financing activities			
Capital increase		1,187,885	-
Proceeds from issue of bonds		16,785,095	11,997,337
Reimbursement of bonds		(8,293,666)	(12,192,096)
Proceeds from issue of subordinated debt		257,133	780,882
Reimbursement of subordinated debt		(401,919)	(154,456)
Treasury stock		4,755	11,599
Dividends paid on ordinary shares		(79,656)	(238,856)
Dividends paid on preference shares		(33,480)	(33,480)
Net cash from financing activities		**9,426,147**	**170,930**
Net changes in cash and cash equivalents		**242,916**	**346,226**
Cash and cash equivalents at the beginning of the year		**1,923,762**	**1,582,916**
Effect of exchange rate changes on cash and cash equivalents		(5,589)	(5,380)
Net changes in cash and cash equivalents		242,916	346,226
Cash and cash equivalents at the end of the year		**2,161,089**	**1,923,762**
Cash and cash equivalents includes:			
Cash	15	218,595	249,979
Deposits at Central Banks	15	1,973,722	1,777,339
Mandatory deposits with Central banks		(641,802)	(767,966)
Deposits with banks	16	610,574	664,410
Total		**2,161,089**	**1,923,762**

The following notes form an integral part of these consolidated financial statements

Banco Espírito Santo Group

Notes to the Consolidated Financial Statements as at 31 December 2009

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

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

Banco Espírito Santo, S.A. (Bank or BES) is a commercial bank headquartered in Portugal, Avenida da Liberdade, no. 195, in Lisbon. The Bank is authorised by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches are located.

BES's foundation dates back to the last quarter of the 19th century. The Bank began operations as a commercial bank in 1937, following the merger of Banco Espírito Santo and Banco Comercial de Lisboa, from which resulted Banco Espírito Santo e Comercial de Lisboa. By public deed of 6 July 1999, the Bank changed its name to Banco Espírito Santo, S.A. BES is the core of a financial group – BES Group – formed by the Bank and a number of financial entities located in Portugal and abroad.

BES is listed on the Euronext Lisbon. As at 31 December 2009, the Bank's subsidiary BES Finance, Ltd had 600 thousand preference shares listed on the Luxembourg Stock Exchange.

Since 1992, BES is part of the Espírito Santo Group, therefore its financial statements are consolidated by BESPAR SGPS, S.A., headquartered in Rua de São Bernardo, no. 62 in Lisbon, and by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.

BES Group has a network of 799 branches throughout Portugal (31 December 2008: 803), international branches in London, Spain, New York, Nassau, Cayman Islands and Cape Verde, a branch in the Madeira Free Zone and twelve overseas representative offices.

Group companies where the Bank has a direct or indirect holding greater or equal to 20%, over which the Bank exercises control or has significant influence, and that were included in the consolidated financial statements, are as follows:

a) Subsidiaries consolidated directly into the Bank:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
BANCO ESPÍRITO SANTO, SA (BES)	**1937**	**-**	**Portugal**	**Commercial banking**		
Banco Espírito Santo de Investimento, SA (BESI)	1993	1997	Portugal	Investment bank	100.00%	Full consolidation
Avistar, SGPS, SA	2009	2009	Portugal	Holding company	100.00%	Full consolidation
Espírito Santo Servicios, SA	1996	1997	Spain	Insurance	99.98%	Full consolidation
Espírito Santo Activos Financieros, SA	1988	2000	Spain	Asset management	92.50%	Full consolidation
Banco Espírito Santo dos Açores, SA (BAC)	2002	2002	Portugal	Commercial banking	57.53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Internet banking	66.00%	Full consolidation
BES África, SGPS, SA	2009	2009	Portugal	Holding company	100.00%	Full consolidation
Banco Espírito Santo Angola, SARL (BESA)	2001	2001	Angola	Commercial banking	51.94%	Full consolidation
BESAACTIF - Sociedade Gestora de Fundos de Investimento, SA	2008	2008	Angola	Asset management - Investment funds	61.95%	Full consolidation
BESAACTIF Pensões - Sociedade Gestora de Fundos de Pensões, SA	2009	2009	Angola	Asset management - Pension funds	61.95%	Full consolidation
Banco Espírito Santo do Oriente, SA (BESOR)	1996	1996	Macao	Commercial banking	99.75%	Full consolidation
Espírito Santo Bank, Inc. (ESBANK)	1963	2000	USA	Commercial banking	98.45%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding company	100.00%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100.00%	Full consolidation
Parsuni - Sociedade Unipessoal, SGPS	2004	2005	Portugal	Holding company	100.00%	Full consolidation
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	1990	2007	Portugal	Real estate	100.00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank finance company	99.99%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Holding company	85.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding company	100.00%	Full consolidation
Banco Espirito Santo North American Capital Limited Liability Co. (BESNAC)	1990	1990	USA	Financing vehicle	100.00%	Full consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman Islands	Financing vehicle	100.00%	Full consolidation
ES, Recuperação de Crédito, ACE (ESREC)	1998	1998	Portugal	Credit recovery	100.00%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Holding company	40.96%	Full consolidation
Espírito Santo Informática, ACE (ESINF)	2006	2006	Portugal	Services provider	84.90%	Full consolidation
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	Portugal	Services provider	100.00%	Full consolidation
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., SA (ESGEST)	1995	1995	Portugal	Services provider	100.00%	Full consolidation
Cêntimo, SGPS, SA (CÊNTIMO)	1988	1995	Portugal	Holding company	100.00%	Full consolidation
Espírito Santo e Comercial de Lisboa, Inc. (ESCLINC)	1982	1997	USA	Representation office	100.00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation office	99.99%	Full consolidation
Quinta dos Cónegos - Sociedade Imobiliária, SA (CÓNEGOS)	1991	2000	Portugal	Real estate	81.00%	Full consolidation
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	58.79%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	64.89%	Full consolidation
Fundo de Capital de Risco - BES PME Capital Growth	2009	2009	Portugal	Venture capital fund	100.00%	Full consolidation
Fundo FCR PME / BES	1997	1997	Portugal	Venture capital fund	57.09%	Full consolidation
Europ Assistance - Comp. Portuguesa Seguros Assistência, SA (EURASS)	1993	1993	Portugal	Insurance	23.00%	Equity method
BES-Vida, Companhia de Seguros, SA (BES VIDA)	1993	2006	Portugal	Insurance	50.00%	Equity method
BES, Companhia de Seguros, SA (BES SEGUROS)	1996	1996	Portugal	Insurance	25.00%	Equity method
Fiduprivate - Soc. de Serviços, Consult., Adm. de Empresas, SA (FIDUPRIVATE)	1994	1994	Portugal	Consulting	24,76%	Equity method
Esumédica - Prestação de Cuidados Médicos, SA (ESUMÉDICA)	1994	1994	Portugal	Health care	24.90%	Equity method
Société Civile Immobilière du 45 Avenue Georges Mandel (SCI GM)	1995	1995	France	Real estate	22.50%	Equity method
ESEGUR - Espírito Santo Segurança, SA (ESEGUR)	1994	2004	Portugal	Security	44.00%	Equity method
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	1991	2003	Portugal	Renting	50.00%	Equity method
Banco Delle Tre Venezie, Spa	2006	2007	Italy	Commercial banking	20.00%	Equity method
OBLOG Consulting, SA	1993	1993	Portugal	Software development	66.63%	Equity method

b) Sub-Groups:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
Banco Espírito Santo de Investimento, SA (BESI)	**1993**	**1997**	**Portugal**	**Investment bank**	**100.00%**	**Full consolidation**
Espírito Santo Capital - Sociedade de Capital de Risco, SA (ESCAPITAL)	1988	1996	Portugal	Venture capital	100.00%	Full consolidation
SES Iberia	2004	2004	Spain	Asset management	50.00%	Full consolidation
HLC - Centrais de Cogeração, S.A.	1999	1999	Portugal	Services provider	24.50% [b)]	Equity method
Coporgest	2002	2005	Portugal	Holding company	25.00%	Equity method
Neumáticos Andrés Investment, S.A.	1987	2006	Spain	Services provider	17.68% [b)]	Equity method
Synergy Industry and Technology, S.A.	2006	2007	Spain	Holding company	25.25%	Equity method
Salgar Investments, S.L.	2007	2007	Spain	Services provider	23.58%	Equity method
Só Peso Restauração e Hotelaria,S.A.	2006	2007	Portugal	Restaurants	9.77% [b)]	Equity method
ESSI Comunicações SGPS, SA	1998	1998	Portugal	Holding company	100.00%	Full consolidation
ESSI SGPS, SA	1997	1997	Portugal	Holding company	100.00%	Full consolidation
Concordia - Espírito Santo Investment	2005	2005	Poland	Services provider	100.00%	Full consolidation
Espírito Santo Investments PLC	1996	1996	Ireland	Non-bank finance company	100.00%	Full consolidation
ESSI Investimentos SGPS, SA	1998	1998	Portugal	Holding company	100.00%	Full consolidation
ESSI FIN, SGPS, SA	2008	2008	Portugal	Holding company	60.00%	Full consolidation
Fin Solutia - Consultoria de Gestão de Créditos, SA	2007	2007	Portugal	Credit recovery	29.70%	Equity method
Polish Hotel Company, SP	2007	2008	Poland	Services provider	33.00%	Equity method
Polish Hotel Capital SP	2007	2008	Poland	Services provider	33.00%	Equity method
Polish Hotel Management Company, SP	2008	2008	Poland	Services provider	25.00%	Equity method
Espirito Santo Investimentos, Ltda	1996	1996	Brazil	Holding company	100.00%	Full consolidation
BES Investimento do Brasil, SA	2000	2000	Brazil	Investment bank	80.00%	Full consolidation
Espírito Santo Capital Brasil, SA	2005	2005	Brazil	Brokerage house	90.00%	Full consolidation
BES Securities do Brasil, SA	2000	2000	Brazil	Asset management	80.00%	Full consolidation
Gespar S/C, Ltda.	2001	2001	Brazil	Holding company	80.00%	Full consolidation
BES Activos Financeiros, Ltda	2004	2004	Brazil	Asset management	82.50%	Full consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	80.00%	Full consolidation
BES REFRAN Investimentos	2009	2009	Brazil	Services provider	56.00%	Full consolidation
BES REFRAN Consultoria	2009	2009	Brazil	Services provider	56.00%	Full consolidation
BRB Internacional, S.A.	2001	2001	Spain	Entertainment	24.93%	Equity method
Prosport - Com. Desportivas, S.A.	2001	2001	Spain	Sporting goods trading	25.00%	Equity method
Apolo Films, SL	2001	2001	Spain	Entertainment	25.15%	Equity method
Cominvest- SGII, S.A.	1993	1993	Portugal	Real estate	49.00% [a)]	Full consolidation
Kuthaya	1999	1999	Portugal	Management and international trading	100.00%	Full consolidation
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	38.69%	Equity method
Fundo BES Multimercado	2009	2009	Brazil	Investment fund	52.93%	Full consolidation
Fundo BES Absolute Return	2009	2009	Brazil	Investment fund	52.15%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding company	100.00%	Full consolidation
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100.00%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Holding company	85.00%	Full consolidation
Espírito Santo Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Asset management - investment funds	85.00%	Full consolidation
Espírito Santo International Management, SA	1995	1995	Luxembourg	Asset management - investment funds	84.83%	Full consolidation
Espírito Santo Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Asset management - investment funds	85.00%	Full consolidation
Espírito Santo Fundo de Pensões, SA	1989	1989	Portugal	Asset management - pension funds	85.00%	Full consolidation
Capital Mais - Assessoria Financeira, SA	1998	1998	Portugal	Asset management - investment funds	85.00%	Full consolidation
Espirito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Asset management - investment funds	41.65%	Equity method
Espírito Santo Gestão de Patrimónios, SA	1987	1987	Portugal	Asset management - investment funds	85.00%	Full consolidation
ESAF - Espírito Santo Participações Internacionais, SGPS, SA	1996	1996	Portugal	Asset management - investment funds	85.00%	Full consolidation
ESAF - International Distributors Associates, Ltd	2001	2001	British Virgin Islands	Asset management - investment funds	85.00%	Full consolidation
ESAF - Alternative Asset Management, Ltd	2007	2007	United Kingdom	Asset management - investment funds	85.00%	Full consolidation

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding company	100.00%	Full consolidation
ES Ventures - Sociedade de Capital de Risco, SA	2005	2005	Portugal	Venture capital	100.00%	Full consolidation
SGPICE Soc. de Serviços de Gestão	2001	2001	Portugal	Management of internet portals	33.33%	Equity method
Jampur - Trading Internacional, Lda. (JAMPUR)	1999	2001	Portugal	Holding company	100.00%	Full consolidation
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	2000	2000	Portugal	Call centers management company	41.67%	Equity method
Banque Espirito Santo et de la Vénétie, SA (ES Vénétie)	1927	1993	France	Commercial banking	42.69%	Equity method
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	58.79%	Full consolidation
Atlantic Ventures Corporation	2006	2006	USA	Holding company	58.79%	Full consolidation
Sousacamp, SGPS, SA	2007	2007	Portugal	Holding company	22.99%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Holding company	26.26%	Equity method
Outsystems, SA	2007	2007	Portugal	IT Services	17.22% [b)]	Equity method
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	IT Services	23.53%	Equity method
Multiwave Photonics, SA	2003	2008	Portugal	IT Services	12.20% [b)]	Equity method
Bio-Genesis	2007	2007	Brazil	Holding company	17.60% [b)]	Equity method
YDreams - Informática, SA	2000	2009	Portugal	IT Services	15.33% [b)]	Equity method
Aquaspy Group Pty Limited	1997	2009	Australia	Services provider	15.43% [b)]	Equity method
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	64.89%	Full consolidation
Nutrigreen, SA	2007	2009	Portugal	Services provider	12.98% [b)]	Eq. Patrimonial
Advance Ciclone Systems, SA	2008	2009	Portugal	Treatment and elimination of residues	20.76%	Eq. Patrimonial
Fundo FCR PME / BES	1997	1997	Portugal	Venture capital fund	57.09%	Full consolidation
MMCI - Multimédia, SA	2008	2008	Portugal	Holding company	27.97% [a)]	Full consolidation
Mobile World - Comunicações. SA	2009	2009	Portugal	Telecommunications	27.97%	Equity method
Cortinovador, SA	2009	2009	Portugal	Manufacture of furniture	28.26%	Equity method
Soprattutto Café, S.A	2006	2006	Portugal	Distribution company	25.59%	Equity method
Enkrott SA	2006	2006	Portugal	Water management and treatment	17.13% [b)]	Equity method
Nova Figfort - Têxteis, Lda	1995	2009	Portugal	Manufacture clothing	19.01% [b)]	Equity method
Rodi - Sinks & Ideas, SA	2006	2006	Portugal	Industry	25.29%	Equity method
Espírito Santo Activos Financieros, SA	1988	2000	Spain	Asset management	92.50%	Full consolidation
Espírito Santo Gestion, SA, SGIIC	2001	2001	Spain	Asset management	92.50%	Full consolidation
Espírito Santo Pensiones, S.G.F.P., SA	2001	2001	Spain	Asset management - pension funds	92.50%	Full consolidation
Espírito Santo Bank, Inc. (ESBANK)	1963	2000	USA	Commercial banking	98.45%	Full consolidation
ES Financial Services, Inc.	2000	2000	USA	Brokerage	84.15%	Full consolidation
Tagide Properties, Inc.	1991	1991	USA	Real estate	98.45%	Full consolidation
Espírito Santo Representaciones	2003	2003	Uruguay	Representation office	98.45%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Holding company	40.96% [a)]	Full consolidation
Concesionaria Autopista Perote-Xalapa, CV	2008	2008	Mexico	Motorway concession	8.19% [b)]	Equity method
Empark - Aparcamientos y Servicios, SA	1968	2009	Spain	Management of parking lots	11.77% [b)]	Equity method
Ascendi - Concessões de Transportes, SGPS, SA	2007	2008	Portugal	Motorway concession	16.38% [b)]	Equity method
Lusoscut - Auto-Estradas da Costa de Prata, S.A.	2000	2000	Portugal	Motorway concession	9.17% [b)]	Equity method
Lusoscut - Auto-Estradas das Beiras Litoral e Alta, S.A.	2001	2001	Portugal	Motorway concession	9.17% [b)]	Equity method
Lusoscut - Auto-Estradas do Grande Porto, S.A.	2002	2002	Portugal	Motorway concession	9.17% [b)]	Equity method

a) These companies were fully consolidated, as the Group exercises control over their activities.
b) The percentage in the table above represents the Group's economic interest. These companies were accounted for following the equity method, as the Group exercises a significant influence over them, in accordance with the accounting policy described in Note 2.2.

Additionally, the Group consolidates special purpose entities, established within the scope of securitisation transactions which are referred to in Note 42.

The main changes in the Group structury that occurred in 2009 are highlighted as follows:

- Subsidiaries companies

- In January 2009, the company BESAACTIF Pensões – Sociedade Gestora de Fundos de Pensões, S.A., was incorporated and is held jointly by ESAF(35%) and BES Angola (62%), being the shareholding of GBES in that company as at 31 December 2009 of 61.95%.
- In February 2009, the companies BES REFRAN Investimentos and BES REFRAN Consultoria were acquired and are held by BES Investimento Brasil (70%);
- In March 2009 the Group liquidated Morumbi Capital Fund;
- In April and June 2009, the funds FCR – ES Ventures III and FCR – BES PME Capital Growth were incorporated and are included in the scope of consolidation of the Group;
- In August 2009 was established Avistar, SGPS, SA, that is totally held by the Bank (see Note 19);
- In September 2009 Espírito Santo Data, SGPS, SA was liquidated;
- In October 2009, the fund FCR PME BES acquired 49% of the share capital of MMCI – Multimédia, SA;
- In November 2009 Espirito Santo Financial Consultants, SA was liquidated;
- In November 2009, BES África, SGPS, SA was set-up, being its share capital fully held by BES;
- In December 2009, BES sold to Portmill – Investimentos e Telecomunicações, an Angolan institutional investor, 24% of BES Angola share capital, by an amount of USD 375 millions, generating a realized gain of Euro 190.9 millions. Following this transaction, BES holds 51.94% of BES Angola share capital.

- Associates (see Note 27)

- In January 2009, BES acquired 6.58% of the share capital of Synergy Industry and Technology, S.A, thus increasing its participation to 25.25%;
- In February 2009, ESTV acquired 20% of the share capital of Nutigreen, S.A. In July 2009, this position was sold to FCR – ES Ventures III fund;
- In May 2009, the Fund FCR Ventures II acquired 10.58% of the share capital of YDreams – Informática, SA, thus increasing its participation to 26.08%;
- In May 2009, the Fund FCR Ventures II acquired 10.45% of the share capital of Aquaspy Group Pty Limited, thus increasing its participation to 26.25%;
- In May 2009, the Fund FCR PME BES acquired 49% of the share capital of Mobile World – Comunicações, SA.;
- In July 2009, the Fund FCR-ES Ventures III acquired 32% of the share capital of Advance Ciclone System, SA;
- In August 2009, ES Concessões and BESI acquired 22.38% and 2.6%, respectively, of Empark – Aparcamientos y Servicios, SA.;
- In September 2009, Fund FCR – ES Ventures II subscribed the capital increase of Outsystems, SA, becoming to hold 17.6% of its share capital;
- In October 2009, the participation in Decomed, SGPS, SA was sold;
- In November 2009, BES acquired 5% of the share capital of Locarent, becoming to hold 50% of its share capital;
- In November 2009, FCR PME BES acquired 49.5% of the share capital of Cortinovador, SA;
- In November 2009, BESI acquired 9.58% of the share capital of AMAL, SGPS, SA;
- In December 2009, FCR PME BES acquired 33.30% of the share capital of Nova Figfort – Têxteis, Lda;
- In December 2009, Banco Delle Tre Venezie, on which BES holds a 20% participation, become to be consolidated by the equity method.

During the year ended 31 December 2009, the movements referring to acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

thousands of euro

	Acquisitions			Disposals			
	Acquisition cost	**Other investments[(a)]**	**Total**	**Disposal value**	**Other reimbursements[(a)]**	**Total**	**Gains/ (losses) from sales/ disposals**
Subsidiaries							
Fundo Morumbi [(b)]	-	-	-	-	-	-	832
ES Data [(c)]	-	-	-	-	-	-	(8,388)
ESFC [(d)]	-	-	-	-	-	-	713
BES Angola [(e)]	-	80,600	80,600	260,308	-	260,308	190,879
	-	80,600	80,600	260,308	-	260,308	184,036
Associates							
Ascendi	-	800	800	-	400	400	-
Coreworks	-	11	11	-	-	-	-
Sousacamp	-	3,000	3,000	-	-	-	-
Outsystems	2,400	-	2,400	-	-	-	-
BIO-Genesis	-	927	927	-	-	-	-
Nutrigreen	1,521	1,000	2,521	-	-	-	-
Synergy	8,000	-	8,000	-	-	-	-
Ydreams	7,576	-	7,576	-	-	-	-
Agrilink (Aquaspy)	3,390	-	3,390	-	-	-	-
Mobile World	123	-	123	-	-	-	-
Advance Ciclone Systems	1,200	-	1,200	-	-	-	-
Empark	61,413	-	61,413	-	-	-	-
Decomed	-	-	-	1,000	-	1,000	250
Locarent	450	-	450	-	-	-	-
Banco Delle Tre Venezie	5,275	-	5,275	-	-	-	-
AMAL SGPS	652	-	652	-	-	-	-
Cortinovador	247	-	247	-	-	-	-
Global Active	-	90	90	-	-	-	-
Lusoscut Costa de Prata	-	753	753	-	283	283	-
Lusoscut Grande Porto	-	-	-	-	2 783	2,783	-
Lusoscut Beira Litoral e Alta	-	-	-	-	683	683	-
	92,247	6,581	98,828	1,000	4 149	5,149	250
	92,247	87,181	179,428	261,308	4 149	265,457	184,286

(a) Capital increase
(b) Fund liquidated in March 2009
(c) Liquidated in September 2009
(d) Liquidated in November 2009
(e) Sale of 24% in December 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUTING PRINCIPLES

2.1. Basis of preparation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005 and Regulation no. 1/2005 from the Bank of Portugal, Banco Espírito Santo, S.A. (BES or the Bank) is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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

The consolidated financial statements for year ended 31 December 2009 were prepared in accordance with the IFRS effective and adopted by the EU until 31 December 2009. The accounting policies applied by the Group in the preparation of these consolidated financial statements for the year ended 31 December 2009 are consistent with the ones used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2008.

However as described in Note 45, in the preparation of the consolidated financial statements as at 31 December 2009, the Goup adopted the accounting standards issued by the IASB and the interpretations issued by the IFRIC effective since 1 January 2009. The accounting principles used by the Group in the preparation of these consolidated financial statements, described in this note, were modified accordingly. The adoption of these new standards and interpretations by the Group in 2009 had impact mainly in new disclosures for which comparative figures are presented.

The accounting standards and interpretations recently issued but not yet effective and that the Group has not yet adopted in the preparation of its financial statements can be analysed in Note 45.

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

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

These consolidated financial statements were approved in the Board of Directors meeting held on 26 February 2010.

2.2. Basis of consolidation

These consolidated financial statements comprise the financial statements of BES and its subsidiaries ("the Group" or "BES Group"), and the results attributable to the Group from its associates.

These accounting policies have been consistently applied by the Group companies, during all the periods covered by the consolidated financial statements.

Subsidiaries

Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than one half of the voting rights. Additionally, control also exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is equal or less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary attributable to minority interest, which exceed the equity of the subsidiary attributable to the minority interest, is attributed to the Group and is taken to the income statement when incurred. If the subsidiary subsequently reports profits, these profits are recognised by the Group until the losses attributable to the minority interest, previously recognised have been recovered.

Associates

Associates are entities over which the Group has significant influence over the company's financial and operating policies but not its control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that significant influence ceases.

If the Group's share of losses of an associate equals or exceeds its interest in the associate, including any long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation of covering those losses or has made payments on behalf of the associate.

Special Purpose Entities (SPE)

The Group consolidates certain special purpose entities ("SPE"), specifically created to accomplish a narrow and well defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, independently of the percentage of the equity held.

The evaluation of the existence of control is made based on the criteria established by SIC 12 – Consolidation Special Purpose Entities, which can be summarised as follows:

- In substance, the activities of the SPE are being conducted in accordance with the specific needs of the Group's business, so that the Group obtains the benefits from these activities;
- In substance, the Group has the decision-making powers to obtain the majority of the benefits from the activities of the SPE;
- In substance, the Group has rights to obtain the majority of the benefits of the SPE, and therefore may be exposed to the inherent risks of its activities;
- In substance, the Group retains the majority of residual or ownership risks related to the SPE so as to obtain the benefits from its activities.

Investment funds managed by the Group

As part of the asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over its activity based on the criteria estabilished by SIC – 12. Control is presumed to exist when the Group owns more than 50% of the participation units of the fund.

Goodwill

Goodwill resulting from business combinations that occurred until 1 January 2004 was offset against reserves, according to the option granted by IFRS 1, adopted by the Group on the date of transition to the IFRS.

From 1 January 2004, the purchase method of accounting is used by the Group to account for the acquisition of subsidiaries and associates. The cost of acquisition is measured at the fair value, determined at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of identifiable net assets acquired.

In accordance with IFRS 3 – Business Combinations, goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associates is included in the book value of the investment in those associates, determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

Transactions with minority interest

The goodwill resulting from the acquisition of minority interest in a subsidiary represents the difference between the acquisition cost of the additional investment in the subsidiary and the book value, at acquisition date, of the net assets acquired, as recognised in the consolidated financial statements.

Gains or losses on a dilution or on a sale of a portion of an interest in a subsidiary without a change in control, corresponding to an increase in minority interest, are accounted for by the Group in the income statement.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates. The consolidated financial statements are prepared in euro, which is BES's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euro as follows:

- Assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions;
- The exchange differences resulting from the translation of the equity at the beginning of the year using the exchange rates at the beginning of the year and at the consolidated balance sheet date are accounted for against reserves, net of deferred taxes. The exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and at the balance sheet date are accounted for against reserves. When the entity is sold such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

2.3. Foreign currency transactions

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

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

2.4. Derivative financial instruments and hedge accounting

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

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

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

Hedge accounting

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

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

• Fair value hedge

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

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

• Cash flow hedge

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

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

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

Embedded derivatives

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

2.5. Loans and advances to customers

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

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

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

In accordance with the documented strategy for risk management, the Group contracts derivative financial instruments to manage certain risks of a portion of the loan portfolio, without applying, however, the provisions of hedge accounting as mentioned in Note 2.4. These loans are measured at fair value through profit or loss, in order to eliminate a measurement inconsistency resulting from measuring loans and derivatives for risk management purposes on different basis (accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in Note 2.6.

Impairment

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

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

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

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

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

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

The changes in the recognised impairment losses attributable to the unwinding of discount are recognised as interest and similar income.

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

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

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

2.6. Other financial assets

Classification

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

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

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:
- Such financial assets are managed, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

Note 23 includes a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.
The structured products acquired by the Group corresponding to financial instruments containing one or more embedded derivatives meet the above mentioned conditions, and, in accordance, are classified under the fair value through profit or loss category.

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

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

Initial recognition, initial measurement and derecognition

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

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

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

Subsequent measurement

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

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

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

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

Reclassifications between categories

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

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

In October 2008, IASB issued an amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. This amendment to IAS 39, permits, in rare circumstances, to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category, to the held-to-maturity investments, available-for-sale financial assets and loans and receivables categories. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category.

Financial assets may be reclassified to the (i) held-to-maturity investments category if the entity has the intention and ability to hold those financial assets until maturity and to the (ii) loans and receivables category if the entity has the intention and ability to hold those financial assets for the foreseeable future and if those financial assets are not traded in an active market.

Following the issuance of this amendment to IAS 39, the Group reclassified, during the last quarter of 2008, non-derivative financial assets, with fixed or determinable payments and fixed maturities, out of the fair value through profit or loss category to the held-to-maturity investments category.

In accordance with the transitions rules of this amendment to IAS 39, the reclassifications of financial assets performed until 31 October 2008 were made at the fair value of the assets reclassified on 1 July 2008 and any reclassifications of a financial asset made in periods beginning on or after 1 November 2008 were made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value will be recognised in the income statement until maturity, based on the effective interest rate method.

During 2009, there were no reclassifications between categories.

Impairment

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

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

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

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

2.7. Sale and repurchase agreements

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

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

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.6. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

2.8. Financial liabilities

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

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or to pay dividends.

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

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

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

The structured products issued by the Group meet the above mentioned conditions and, in accordance, are classified under the fair value through profit or loss category.

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

If the Group repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

2.9. Equity instruments

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

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

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

Preference shares issued are considered as equity instruments if the Group has no contractual obligation to redeem and if dividends, non cumulative, are paid only if and when declared by the Group.

2.10. Offsetting financial instruments

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

2.11. Non-current assets held-for-sale

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), the assets or disposal groups are available for immediate sale and is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS. Subsquently, these assets or disposal group are measured at the lower of their carrying amount or fair value less costs to sell, determined annually in accordance with the applicable IFRS.

In the scope of its activity, the Group incurs in the risk from failure of the borrower to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group acquires the asset held as collateral in exchange from loans. In accordance with the requirements of Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF), banks are prevented from acquiring property that is not essential to their daily operations (article 112.º of the DL 298/92 of 31 of December and subsequent amendments) being able to acquire, however, property in exchange for loans. This property must be sold within 2 years, period that may be extended by written authorization from the Bank of Portugal and in conditions to be determined by this authority (art.114º).

It is Group's objective to immediately dispose all property acquired in exchange for loans. This property is classified as non-current assets held-for-sale and initially recognised at the lower of its fair value less costs to sell and the carrying amount of the loans. Subsequently, this property is measured at the lower of its carrying amount and the corresponding fair value less costs to sell and is not depreciated. Any subsequent write-down of the acquired property to fair value is recorded in the income statement.

Property valuations are performed in accordance with one of the following methodologies, which are applied in accordance with the specific situation of the asset:

a) Market Method
The Market Comparison Criteria takes as reference transaction values of similar and comparable property to the property under valuation, obtained through market searching carried out in the zone.

b) Income Method
Under this method, the property is valued based on the capitalization of its net income, discounted for the present moment, through the discounted cash-flows method.

c) Cost Method
This method separates the value of property on its basic components: Urbane Ground Value and Urbanity Value; Construction value; and Indirect Costs Value.

The valuations are performed by independent specialized entities. The valuation reports are analysed internally with the gauging of processes adequacy, by comparing the sales values with the reevaluated values.

2.12. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. At the transition date to IFRS, 1 January 2004, the Group elected to consider as deemed cost, the revalue amount of property and equipment as determined in accordance with previous accounting policies of the Group, which was broadly similar to depreciated cost measured under IFRS, adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

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

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

	Number of years
Buildings	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 12
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

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

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

2.13. Intangible assets

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

Costs that are directly associated with the development of identifiable specific software applications by the Group, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. These costs include employee costs from the Group companies specialised in IT directly associated with the development of the referred software.

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

2.14. Leases

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

Operating leases

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

Finance leases

• As lessee

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

• As lessor

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

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

2.15. Employee benefits

Pensions

To cover the liabilities assumed by the Group within the framework stipulated by the ACT "Acordo Colectivo de Trabalho" for the banking sector, pension funds were set up to cover retirement benefits including widows and orphans benefits and disability for the entire work force and also health-care benefits for employees hired until 31 March 2008. Employees hired after 31 March 2008 are covered by the Social Security general scheme.

During 2008, the Bank obtained the necessary authorizations from the Portuguese Insurance Institute to change the Pension Fund contract in order to allow the coverage of all pension liabilities and health care benefits.

The pension liabilities and health care benefits are covered by funds that are managed by ESAF – Espírito Santo Fundos de Pensões, S.A., a Group's subsidiary.

The pension plans of the Group are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In the light of IFRS 1, the Group decided to adopt, at transition date (1 January 2004), IAS 19 retrospectively and has recalculated the pension and other post--retirement benefits obligations and the corresponding actuarial gains and losses, to be deferred in accordance with the corridor method allowed by this accounting standard.

The liability with pensions is calculated semi-annually by the Group, as at 31 December and 30 June for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries.

The discount rate used in this calculation was determined with reference to the following type of bonds:
- Corporate bonds included on the iBoxx Index with AA rating (with a nominal value above euro 500 millions and maturity above 1 year);
- Corporate bonds non-redeemable before the maturity date, not financed by funds, not extendable and not guaranteed; and
- Corporate bonds for which the spread between the bid and ask values is below 5% of the average of the bid and ask prices.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions, are recognised as an asset or liability and are recognised in the income statement using the corridor method defined by IAS 19.

This method establishes that the actuarial gains and losses accumulated at the beginning of the period that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the period, are charged to the income statement over a period not to exceed the average of the remaining working lives of the employees participating in the plan. The Group has determined on the basis of the above criteria to amortise the actuarial gains and losses that fall outside the corridor over a 15 year period. The actuarial gains and losses accumulated at the beginning of the period that are within the corridor are not recognised in the income statement.

At each period, the Group recognises as a cost in the income statement a net total amount that comprises (i) the service cost, (ii) the interest cost, (iii) the expected return on plan assets, (iv) a portion of the net cumulative actuarial gains and losses determined using the corridor method, and (v) the effect of curtailment losses related with early retirements, which includes the early amortisation of the respective actuarial gains and losses.

The effect of the early retirements corresponds to the increase in pension liabilities due to retirements before the normal age of retirement, which is 65 years.

The Group makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

The Group assesses at each reporting date and for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

Health care benefits

The Group provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above.

Since 2008, these benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

Long-term service benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, the Group has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within the Group, long-term service premiums corresponding, respectively, to 1, 2 and 3 months of their effective monthly remuneration earned at the date the premiums are paid.

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by the Group in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated semi-annually, at the balance sheet date, by the Group using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation was determined based on the same methodology described for pensions.

In each period the increase in the liability for long-term service premiums, including actuarial gains and losses and past service costs is charged to the income statement.

Share based incentive scheme (SIBA)

BES and its subsidiaries established a share based payment scheme (SIBA) that allows its employees to acquire BES shares with deferred settlement financed by it. The employees have to hold the shares for a minimum of two to four years after which they can sell the shares in the market and repay the debt. However, the employees have, after the referred period, the option to sell the shares back to BES at acquisition cost.

The shares held by the employees under SIBA are accounted for as treasury stock of BES, this scheme is classified as an equity settlement share based payment in accordance with IFRS 2 – Share based payments.

Each option under the scheme is fair valued on grant date and is recognised as an expense, with a corresponding increase in equity, over the vesting period. Annually the amount recognised as an expense is adjusted to reflect the actual number of options that vest.

The equity instruments granted are not remeasured for subsequent changes in their fair value.

Variable remuneration payment plan

During the first semester of 2008, following the General Shareholders Meeting held on 31 March 2008, BES and its subsidiaries established a benefits payment scheme - Variable remuneration payment plan (PPRV – 2008/2010).

Under this incentive scheme, employees of BES and its subsidiaries have the right to a future cash payment, corresponding to the appreciation of BES shares above a pre-established price (strike price). In order to receive this payment, the employees have to remain in the Bank for a minimum period of three years.

This variable remuneration payment plan is within the scope of IFRS 2 – Share based payments and corresponds to a cash settlement share based payment. The fair value of this benefit plan at inception, determined at its grant date, will be taken to the income statement as staff costs over a period of three years. The recognised liability under the plan is re-measured at each balance sheet date, being the fair value changes recognised in the income statement under the caption net gains from financial assets at fair value through profit or loss.

Bonus to employees and to the Board of Directors

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

2.16. Income tax

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

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

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

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

The Group offsets deferred taxes assets and liabilities for each subsidiary, whenever (i) the subsidiary has a legally enforceable right to set off current tax assets against current tax liabilities, and (ii) they relate to income taxes levied by the same taxation authority. This offset is therefore performed at each subsidiary level, being the deferred tax asset presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax assets and the deferred tax liability presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax liabilities.

2.17. Provisions

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

Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan and such restructuring either has commenced or has been announced publicly.

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

2.18. Interest income and expense

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

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

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

For derivative financial instruments, except for derivatives for risk management purposes (see Note 2.4), the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.19. Fee and commission Income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;

• Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;
• Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.20. Dividend income

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

2.21. Segmental reporting

Since 1 January 2009, the Group adopted IFRS 8 – Segmental reporting, for the disclosure of the financial information by operating segments (see Note 4).

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The results of the operating segments are periodically reviewed by the Management for decisions taking purposes. The Group prepares on a regular basis, financial information regarding the operating segments, which is reported to the Management.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.22. Earnings per share

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

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

2.23. Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

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

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

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

3.1. Impairment of available-for-sale financial assets

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

(i) Equity securities: declines in market value above 30% in relation to the acquisition cost or market value below the acquisition cost for a period longer than twelve-months;
(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

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

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

3.2. Fair value of derivatives

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

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

3.3. Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.5.

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

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

3.4. Securitisations and special purpose entities (SPE)

The Group sponsors the formation of special purpose entities (SPEs) primarily for asset securitisation transactions and for liquidity purposes.

The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question (see Note 2.2).

The determination of the SPEs that needs to be consolidated by the Group requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual gains and losses. Different estimates and assumptions could lead the Group to a different scope of consolidation with a direct impact in net income.

3.5. Held-to-maturity investments

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

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

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

3.6. Income taxes

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

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

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

3.7. Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

NOTE 4 – SEGMENT REPORTING

As at 1 January 2009, BES Group adopted IFRS 8 – Operating Segments, for disclosure of information about the entity's operating segments. In order to comply with the requirements of IFRS 8 the Group adopted new criteria in the preparation of this information.

BES Group activities are focused on the financial sector and are directed to companies, institutionals and private customers. The Group's decision centre is in Portugal, which makes it its privileged market. The historical link with Brazil and Africa, the globalization of the Portuguese companies and the Portuguese emigration to several countries, led to an internationalisation of the Group, which already has an international structure contributing significantly to the Group's activities and results.

The Group's products and services includes deposits, loans to retail and corporate customers, fund management, broker and custodian services, investment banking services and the commercialization of life and non-life insurance products. Additionally, the Group makes short, medium and long term investments in the financial and currency exchange markets with the objective of taking advantages from the prices changes or to have a return from its available resources.

The Group has BES as its main operating unit- with 705 branches in Portugal and with branches in London, New York, Spain (25 branches), Nassau, Cayman Islands, Cape Verde and Madeira Free Zone and 12 representation offices – with BES Investmento (investment banking); BES Angola (34branches); BES Açores (18 branches); Banco BEST (11branches); Espírito Santo Bank; BES Oriente; BES Vénétie; Espírito Santo Activos Financeiros (ESAF); BES Seguros (non life insurance) and BES Vida, among other companies.

When evaluating the performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate, Institutional and Private Banking; (2) Asset Management; (3) International Commercial Banking; (4) Investment Banking; (5) Capital Markets and Strategic Investments; and (6) Corporative Centre. Each segment includes the BES structures that directly or indirectly relate to it, and also the other units of the Group whose activities are most related to one of these segments. In addition to the individual evaluation of each operating unit of the Group (considered as an investment centre), the Executive Committee defines strategies, commercial programs and performance evaluation for each operating segment.

Complementary, the Group, uses a second segmentation of its activities and results according to geographic criteria, segregating the activity and the results generated from the units located in Portugal (domestic activities) from the units located abroad (international activities).

4.1.Operating Segments Description

Each of the operating segments includes the following activities, products, customers and Group structures:

Domestic Commercial Banking

This operating segment includes all the banking activity with corporate and institutional customers developed in Portugal, based in the branch offices network, corporate centres and other channels and includes the following:

a) Retail: corresponds to all activity developed by BES in Portugal with private customers and small business, fundamentally originated by the branches network, agent network and electronic channels. The financial information of the segment relates to, among other products and services, mortgage loans, consumer credit, financing the clients' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.

b) Corporate and Institutional: includes BES activities in Portugal with small, medium and large companies, through its commercial structure dedicated to this segment, which includes 26 corporate centres. Also includes activities with institutional and municipal customers. The main products considered on this segment are: discounted bills, leasing, factoring and short and long term loans; includes deposits and guarantees, custodian services, letters of credit, electronic payments management and other services.

c) Private Banking: includes private banking activity of BES, all profit, loss and assets and liabilities associated to customers classified as private by BES. The main products considered on this segment are: deposits; discretionary management, selling of investment funds, custodian services, brokerage services and insurance products.

International Commercial Banking

This operating segment includes the units located abroad, which banking activities are focused on corporate and retail customers, excluding investment banking and asset management, which are integrated in the corresponding segments.

Among the units comprising this segment are BES Angola and Spain, London and New York Branches of BES. The main products included in this segment are deposits, credit, leveraged finance, structured trade finance and project finance operations. This segment, in the context of the funding strategy, has been assuming a relevant role, mainly within institutional customers.

Investment Banking

Includes assets, liabilities, profits and losses of the operating units that consolidate in BES Investimento, which comprises all the investment banking activities of the Group originated in Portugal and abroad. In addition to the lending activity, deposits and other forms of funding, it includes advisory services, mergers and acquisitions, restructuring and debt consolidation, initial public offerings (shares and bonds), brokerage and other investment banking services.

Asset Management

This segment includes the asset management activities developed by ESAF in Portugal and abroad (Spain, Brazil, Angola, Luxembourg and United Kingdom). ESAF's products includes all tips of funds - investment funds, real estate funds and pension funds, and also includes discretionary management services and portfolio management.

Capital Markets and strategic investments

This segment includes the financial management of the Group, namely the investments in capital markets instruments (equity and debt), whether they are integrated in trading, fair value, available for sale or held to maturity financial assets portfolios. Also included in this segment is the Group's investment in minority strategic positions, as well as all the activity inherent to interest rate and exchange rate risk management, long and short positions on financial instruments management, which allow the Group to take advantage of the price changes in those markets where these instruments are exchanged.

Corporative centre

This area does not correspond to an operating segment. It refers to an aggregation of corporative structures acting throughout the entire Group, such as, areas related to the Board of Directors, Compliance, Financial and Accounting, Risk management, Investor Relations, Internal Audit, Organization and Quality, among others.

4.2. Allocation criteria of the activity and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analysed by the decision makers of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in Note 2.

Measurement of profit or loss from operating segments

The Group uses net income before taxes as the measure of profit or loss for evaluating the performance of each operating segment.

Autonomous Operating Segments

As mentioned above, each operating unit (branches abroad, affiliated and associated entities) is evaluated separately, as these units are considered investment centres. Additionally, considering the characteristics of the business developed by these units, they are fully included in one of the operating segments, assets, liabilities, equity, income and expenses.

BES structures dedicated to segments

BES activity comprises most of its operating segments and therefore its activity is disaggregated.

For the purpose of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, the group makes a strategic decision in order to securitize some of these originated assets; (ii) the allocation of a commercial margin to mass-products, established in a high level when the products are launched; (iii) the allocation of a margin directly negotiated by the commercial structures with the clients for non-mass-products; (iv) the allocation of direct costs from commercial and central structures dedicated to the segment; (v) the allocation of indirect cost (central support and IT services) determined in accordance with specific drivers and with the Cost Based Approach (CBA) model; (vi) the allocation of credit risk determined in accordance with the impairment model; (vii) the allocation of the Bank total equity to the capital markets and strategic investments segment.

The transactions between the independent and autonomous units of the Group are made at market prices; the price of the services between the structures of each unit, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending); the remaining internal transactions are allocated to the segments in accordance with CBA without any margin from the supplier.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the Financial Department, whose mission is to make the Bank's financial management. The related activity and results are included in Capital Markets and Strategic Investments segment.

Interest and similar income/expense

Since the Group's activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Consolidated Investments under the Equity Method

Investments in associated companies consolidated under the equity method are included in Capital Markets and Strategic Investments segment, in case of BES associates. For other companies of the Group, the same entities are included in the segment they relate to.

Non current assets

Non current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. BES includes these assets on the Capital Markets and Strategic Investments segment; the non current assets held by the subsidiaries are allocated to the segment in which these subsidiaries develop their business.

Income taxes

Income tax is a part of the Group net income but does not affect the evaluation of most of the Operating Segments. Deferred tax assets and liabilities are included in the Capital Markets and Strategic Investments segment.

Post Employment Benefits

Assets under post employment benefits are managed in a similar way to deferred income taxes assets, and are included in the Capital Markets and Strategic Investments segment. The factors that influence the amount of responsibilities and the amount of the funds assets correspond, mainly, to external elements; it is Group's policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: BES Angola and its branches, BES Oriente, Espírito Santo Bank; Espírito Santo Vénétie, London, Spain, New York and Cape Verde branches and the operating units located abroad from BES Investimento and ESAF.

The financial elements related to the international area are presented in the financial statements of those units with the respective consolidation and elimination adjustments.

Retrospective Information

In 2009, the Group adopted IFRS 8 – Operating Segments, which differ substantially from the rules employed until this date in the preparation of the financial statements. As a consequence, the information related to 2008 was reorganized and prepared to be consistent and compliant with IFRS 8.

The primary segments reporting are presented as follows:

in thousands of euro

	31.12.2009								
	Retail	Corporate and Institutional	Private banking	International comercial banking	Investment banking	Asset management	Capital markets and strategic investments	Corporative centre	Total
Net interest income	348,920	326,909	12,694	294,778	44,346	1,214	171,954	-	1,200,815
Other operating income	252,624	214,113	25,164	177,468	175,555	29,500	227,232	-	1,101,656
Total operating income	**601,544**	**541,022**	**37,858**	**472,246**	**219,901**	**30,714**	**399,186**	**-**	**2,302,471**
Intersegment operating net income	6,934	10,491	-	(5,891)	(13,834)	518	1 782	-	-
Other intersegment operating income	1,531	24,212	1,194	1,017	7,477	(23,825)	55,733	-	67,339
Intersegment operating income	**8,465**	**34,703**	**1,194**	**(4,874)**	**(6,357)**	**(23,307)**	**57,515**	**-**	**67,339**
External operating income	593,079	506,319	36,664	477,120	226,258	54,021	341,671	-	2,235,132
Operating expenses	441,427	276,400	23,677	297,804	158,349	24,585	318,762	223,480	1,764,484
Includes:									
Provisions/Impairment	25,483	216,443	644	139,975	52,510	(30)	273,749	-	708,774
Gains on disposal of investments in subsidiaries and associates 1)	-	-	-	-	832	-	183,454	-	184,286
Share of profit of associates	-	-	-	-	2,271	-	27,706	-	29,977
Profit before income tax and minority interest	**151,652**	**229,919**	**12,987**	**179,316**	**71,012**	**29,436**	**234,069**	**(223,480)**	**684,911**
Total Net Assets	**18,106,586**	**19,858,224**	**1,030,157**	**24,240,214**	**5,904,762**	**139,009**	**13,018,248**	**-**	**82,297,200**
Total Liabilities	**18,041,236**	**19,858,224**	**1,030,153**	**23,581,366**	**5,352,617**	**33,599**	**7,461,122**	**-**	**75,358,317**
Investments in Associates	-	-	-	-	47,032	-	746,783	-	793,815

1) See Note 1

in thousands of euro

	31.12.2008								
	Retail	Corporate and Institutional	Private banking	International comercial banking	Investment banking	Asset management	Capital markets and strategic investments	Corporative centre	Total
Net interest income	458,651	287,786	22,224	393,006	44,720	6,946	(127,164)	-	1,086,169
Other operating income	218,408	140,609	21,271	78,520	138,777	74,297	81,572	-	753,454
Total operating income	**677,059**	**428,395**	**43,495**	**471,526**	**183,497**	**81,243**	**(45,592)**	**-**	**1,839,623**
Intersegment operating net income	13,017	9,133	-	143,781	(6,687)	3,405	(162,649)	-	-
Other intersegment operating income	(8,465)	(34,703)	(1,194)	4,874	6,357	23,307	(57,281)	-	(67,105)
Intersegment operating income	**4,552**	**(25,570)**	**(1,194)**	**148,655**	**(330)**	**26,712**	**(219,930)**	**-**	**(67,105)**
External operating income	672,507	453,965	44,689	322,871	183,827	54,531	174,338	-	1,906,728
Operating expenses	496,983	124,934	27,553	204,512	120,629	21,757	175,588	205,512	1,377,468
Includes:									
Provisions/Impairment	76,972	65,036	3,372	65,944	29,768	(75)	134,850	-	375,867
Gains on disposal of investments in subsidiaries and associates 1)	-	-	-	-	-	-	1,673	-	1,673
Share of profit of associates	-	-	-	-	6,570	-	(26,860)	-	(20,290)
Profit before income tax and minority interest	**175,524**	**329,031**	**17,136**	**118,359**	**69,768**	**32,774**	**(26,437)**	**(205,512)**	**510,643**
Total Net Assets	**18,738,205**	**18,878,539**	**1,272,014**	**20,624,838**	**5,360,609**	**134,076**	**10,178,447**	**-**	**75,186,728**
Total Liabilities	**18,678,861**	**18,878,539**	**1,272,011**	**20,078,059**	**5,032,891**	**34,232**	**6,559,191**	**-**	**70,533,784**
Investments in Associates	-	-	-	-	38,547	-	605,959	-	644,506

1) See Note 1

The secondary segment information is prepared in accordance with the geographical distribution of the Group's business units, as follows:

in thousands of euro

	31.12.2009										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the period	342,805	(14,000)	5,024	68,352	1,158	27,135	89,932	2,487	3,682	(4,461)	522,114
Net assets	55,762,854	6,718,909	72,792	10,962,612	2,345,792	1,638,913	4,462,498	125,575	201,980	5,275	82,297,200
Capital expenditure (Property and equipment)	39,536	1,892	-	142	13	-	57,692	214	8	-	99,497
Capital expenditure (Intangible assets)	42,093	5,490	-	4,394	-	-	3,303	43	1	-	55,324

in thousands of euro

	31.12.2008									
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Total
Net profit for the period	259,086	1,261	8,997	41,711	12,101	29,812	48,247	701	368	402,284
Net assets	53,193,748	6,336,063	79,215	8,473,771	2,190,626	1,027,561	3,530,153	153,421	202,170	75,186,728
Capital expenditure (Property and equipment)	78,849	1,438	-	136	167	-	84,750	19	32	165,391
Capital expenditure (Intangible assets)	52,996	4,936	-	-	-	-	5,438	-	1	63,371

NOTE 5 – NET INTEREST INCOME

This balance is analysed as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from loans and advances	2,140,313	54,942	2,195,255	2,817,592	87,295	2,904,887
Interest from financial assets at fair value through profit or loss	-	323,047	323,047	-	377,939	377,939
Interest from deposits with banks	79,821	17,837	97,658	295,200	40,206	335,406
Interest from available-for-sale financial assets	180,182	-	180,182	219,254	-	219,254
Interest from held-to-maturity financial assets	92,402	-	92,402	24,428	-	24,428
Interest from derivatives for risk management purposes	-	931,950	931,950	-	992,874	992,874
Other interest and similar income	17,039	-	17,039	25,906	-	25,906
	2,509,757	**1,327,776**	**3,837,533**	**3,382,380**	**1,498,314**	**4,880,694**
Interest expense and similar charges						
Interest from debt securities	539,214	319,845	859,059	1,152,449	206,587	1,359,036
Interest from amounts due to customers	439,839	23,816	463,655	679,779	16,941	696,720
Interest from deposits from central banks and other banks	227,760	48,297	276,057	474,971	22,592	497,563
Interest from subordinated debt	130,816	6,484	137,300	96,394	33,558	129,952
Interest from derivatives for risk management purposes	-	900,647	900,647	-	1,111,254	1,111,254
	1,337,629	**1,299,089**	**2,636,718**	**2,403,593**	**1,390,932**	**3,794,525**
	1,172,128	**28,687**	**1,200,815**	**978,787**	**107,382**	**1,086,169**

Interest from loans and advances includes an amount of euro 18 626 thousands (31 December de 2008: euro 16 190 thousands) related to the unwind of discount regarding the impairment losses of loans and advances to customers that are overdue (see Note 21).

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.18, interests from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policy described in Notes 2.5, 2.6 and 2.8.

NOTE 6 – NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Fee and commission income		
From banking services	497,206	470,885
From guarantees granted	125,274	87,845
From transactions with securities	35,521	44,492
From commitments assumed to third parties	31,699	20,184
Other fee and commission income	96,753	85,953
	786,453	**709,359**
Fee and commission expenses		
From banking services rendered by third parties	70,876	69,492
From transactions with securities	20,773	21,699
From guarantees received	1,423	881
Other fee and commission expenses	13,239	18,081
	106,311	**110,153**
	680,142	**599,206**

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

This balance is analysed as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	83,458	74,965	8,493	114,210	107,490	6,720
Issued by other entities	27,484	70,589	(43,105)	91,167	69,367	21,800
Shares	162,759	88,149	74,610	84,146	84,226	(80)
Other variable income securities	11,759	2,021	9,738	7,602	47,427	(39,825)
	285,460	**235,724**	**49,736**	**297,125**	**308,510**	**(11,385)**
Derivative financial instruments						
Exchange rate contracts	3,133,213	3,494,862	(361,649)	4,153,787	3,381,308	772,479
Interest rate contracts	6,868,426	6,625,332	243,094	8,906,287	8,908,611	(2,324)
Equity/Index contracts	1,956,853	1,888,526	68,327	1,991,383	2,053,899	(62,516)
Credit default contracts	378,833	391,465	(12,632)	905,556	1,010,958	(105,402)
Other	543,405	454,038	89,367	275,641	915,926	(640,285)
	12,880,730	**12,854,223**	**26,507**	**16 232,654**	**16,270,702**	**(38,048)**
Financial assets and liabilities at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	263,228	163,040	100,188	492,582	690,860	(198,278)
Shares	4,482	6	4,476	3,511	19,306	(15,795)
Other variable income securities	85,129	192,513	(107,384)	152,157	217,084	(64,927)
	352,839	**355,559**	**(2,720)**	**648,250**	**927,250**	**(279,000)**
Other financial assets (1)						
Deposits with banks	1,155	965	190	35	-	35
Loans and advances to customers	22,488	21,064	1,424	30,495	28,077	2,418
	23,643	**22,029**	**1,614**	**30,530**	**28,077**	**2,453**
Financial liabilities (1)						
Deposits from banks	60,704	89,213	(28,509)	31,166	11,694	19,472
Due to customers	21,831	38,785	(16,954)	5,685	9,570	(3,885)
Debt securities issued	245,617	312,149	(66,532)	298,058	131,891	166,167
Other subordinated debt	15,159	29,713	(14,554)	46,752	-	46,752
	343,311	**469,860**	**(126,549)**	**381,661**	**153,155**	**228,506**
	719,793	**847,448**	**(127,655)**	**1,060,441**	**1,108,482**	**(48,041)**
	13,885,983	**13,937,395**	**(51,412)**	**17,590,220**	**17,687,694**	**(97,474)**

(1) Includes the fair value change of hedged assets and liabilities or at fair value option.

As at 31 December 2009, this balance includes a negative effect of euro 41.0 millions related to the change in fair value of financial liabilities designated at fair value through profit or loss attributable to the entity's credit risk component (31 December 2008: positive effect of euro 102.1 millions).

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

The Group recognises in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Group access to the wholesale market.

In 2009, the gains recognised in the income statement arising from the built-in fee (day one profit) amounted to approximately euro 9,006 thousands (2008: euro 28,438 thousands).

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

This balance is analysed as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Bonds and other fixed income securities						
Issued by government and public entities	3,443	2,551	892	4,465	5,137	(672)
Issued by other entities	29,407	14,267	15,140	21,190	60,048	(38,858)
Shares	300,298	137,500	162,798	360,800	102,995	257,805
Other variable income securities	11,252	843	10,409	3,506	8,403	(4,897)
	344,400	**155,161**	**189,239**	**389,961**	**176,583**	**213,378**

During the year ended 31 December 2009, the Group sold at market prices through the overall stock exchange, (i) 111.6 millions ordinary shares of EDP; (ii) 69.4 millions ordinary shares of PT and (iii) 23.0 millions ordinary shares of Bradesco. The realised net gain following these transactions was euro 52.1 millions.

During the year ended 31 December 2008, the Group sold (i) 42.7 millions ordinary shares of Bradesco, adjusted from the stock split, (ii) 29.3 millions ordinary shares of EDP and (iii) 7.6 millions shares of Portugal Telecom (total realised gain: euro 289.0 millions).

Related party transactions are described in Note 41.

NOTE 9 – NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Foreign exchange translation	1,139,932	1,081,399	58,533	1,295,506	1,269,887	25,619
	1,139,932	**1,081,399**	**58,533**	**1,295,506**	**1,269,887**	**25,619**

This balance includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.3.

NOTE 10 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Other operating income / (expenses)		
Technological services	6,104	6,565
Gains on repurchase of Group debt securities (see Note 35)	110,470	27,940
Non recurring gains on credit operations	16,442	21,954
Non recurring gains on advisory services	6,893	6,398
Direct and indirect taxes	(11,527)	(12,658)
Contributions to the Deposits Guarantee Fund	(4,751)	(3,901)
Membership and donations	(6,933)	(14,024)
Penalties from non-compliance with contractual agreements	(15,281)	(33,473)
Losses on customer funds contracts	(24,978)	(10,300)
Losses with mortgage loans	(343)	(8,469)
Other	19,735	12,095
	95,831	**(7,873)**

NOTE 11 – STAFF COSTS

This balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Wages and salaries	403,189	392,252
Remuneration	400,175	386,707
Long-term service benefits (see Note 12)	3,014	5,545
Mandatory social charges	58,772	58,412
Pension costs (see Note 12)	85,317	54,249
Other costs	18,617	16,137
	565,895	**521,050**

Other costs includes the amount of euro 362 thousands (31 December 2008: euro 703 thousands) related with the share based incentive scheme (SIBA) and euro 4,301 thousands related with the variable remuneration payment plan (PPRV) (31 December 2008: euro 2,509 thousands), in accordance with the accounting policy described in Note 2.15. The details of these plans are presented in Note 12.

The costs with salaries and other benefits attributed to BES Group key management personnel are presented as follows:

in thousands of euro

	Board of Directors	Audit Committee	Other Key Management	Total
Salaries and other short-term benefits	4,370	717	8,911	13,998
Pension costs	4,257	15	1,346	5,618
Long service benefits	-	-	9	9
Bonus	7,659	-	4,213	11,832
	16,286	**732**	**14,479**	**31,457**
Salaries and other short-term benefits	4,148	723	7,768	12,639
Pension costs	5,307	15	825	6,147
Long service benefits	70	-	144	214
Bonus	8,309	-	5,432	13,741
	17,834	**738**	**14,169**	**32,741**

Other key management personnel includes board members of BES subsidiaries, the top management and the Advisors to the Board of Directors of the Bank. The information regarding December 2008 was adjusted as a consequence of the review performed to the concept "Other key management" in accordance with article 248-B of Código dos Valores Mobiliários.

As at 31 December 2009 and 2008, loans granted by BES Group to its key management personnel, amounted to euro 30,313 thousands and euro 28,725 thousands, respectively.

As at 31 December 2009 and 2008, the number of employees of the Group is analysed as follows:

	31.12.2009	31.12.2008
BES employees	6,837	6,967
Financial sector subsidiaries employees	2,522	2,464
	9,359	9,431

The number of BES Group employees, per professional category, is analysed as follows:

	31.12.2009	31.12.2008
Senior management	1,037	897
Management	983	998
Specific functions	3,809	3,958
Administrative functions and other	3,530	3,578
	9,359	9,431

NOTE 12 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the collective labor agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force hired until 31 March 2008. Employees hired after 31 March 2008 are covered by the Portuguese Social Security scheme.

As at 30 December 1987, the Bank estabilished a pension fund to cover the above mentioned liabilities with pension payments. Later, after obtaining the authorisation from the Portuguese Insurance Institute, the Bank has changed the pension fund contract in order to allow the coverage of all pension liabilities, health care benefits and, in 2009, the death allowance. The pensions funds in Portugal are managed by ESAF – Espírito Santo Fundo de Pensões, S.A.

The key actuarial assumptions used to calculate pension liabilities, are as follows:

	Assumptions		Actual	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Financial assumptions				
Salaries increase rate	3.25%	4.00%	3.70%	4.66%
Pensions increase rate	1.75%	2.00%	1.60%	2.04%
Expected return of plan assets	6.00%	5.80%	10.82%	-28.03%
Discount rate	5.50%	5.75%	-	-
Demographic assumptions and valuation methods				
Mortality table				
Men	TV 73/77 (adjusted)			
Women	TV 88/90			
Actuarial method	Project Unit Credit Method			

The number of employees covered by the plan is a follows:

	31.12.2009	31.12.2008
Employees	6,248	6,292
Pensioners	5,655	5,643
	11,903	11,935

In accordance with IAS 19, the Group's liabilities, charges and contributions to the pension funds and respective coverage levels reported as at 31 December 2009 and 2008 are analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Assets / (liabilities) recognised in the balance sheet		
Defined benefit obligation		
Pensioners	(1,278,006)	(1,286,915)
Employees	(738,793)	(671,203)
	(2,016,799)	**(1,958,118)**
Health-care benefit obligation		
Pensioners	(68,869)	(70,213)
Employees	(39,534)	(36,543)
	(108,403)	**(106,756)**
Total obligations	**(2,125,202)**	**(2,064,874)**
Coverage		
Fair value of plan assets	**2,198,280**	**2,056,627**
Amounts payable to the fund	73,078	(8,247)
Unrecognised net actuarial losses	839,063	971,172
Asset/(liabilities) recognised in the balance sheet	**912,141**	**962,925**

In accordance with the accounting policy described in Note 2.15, the Group liability with pensions is calculated semi-annually. The net assets with pensions and health-care plan are included in the balance other assets (see Note 28).

In accordance with the accounting policy described in Note 2.15 and following the requirements of IAS 19 – Employees benefits, the Group assesses at each balance sheet date and for each plan separately, the recoverability of the recognised assets in relation to the defined benefit pension plans based on the expectation of reductions in future contributions to the funds.

The changes in the defined benefit obligation can be analysed as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Pension plans	Health-care benefits	Total	Pension plans	Health-care benefits	Total
Defined benefit obligation at the beginning of the year	**1,958,118**	**106,756**	**2,064,874**	**1,970,365**	**110,675**	**2,081,040**
Service cost	38,569	2,197	40,766	38,618	2,171	40,789
Interest cost	108,907	5,947	114,854	105,580	5,884	111,464
Plan participants' contribution	3,198	1	3,199	3,125	1	3,126
Actuarial (gains) / losses:						
- changes in actuarial assumptions	(40,867)	(2,285)	(43,152)	(81,301)	(6,383)	(87,684)
- experience adjustments	50,034	1,549	51,583	23,491	19	23,510
Pensions paid by the fund	(104,069)	(5,831)	(109,900)	(101,460)	-	(101,460)
Benefits paid by the Group	-	(34)	(34)	-	(5,779)	(5,779)
Curtailment losses related to early retirements	-	-	-	5,108	281	5,389
Exchange differences and other	2,909	103	3,012	(5,408)	(113)	(5,521)
Defined benefit obligation at the end of the year	**2,016,799**	**108,403**	**2,125,202**	**1,958,118**	**106,756**	**2,064,874**

As at 31 December 2009, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 16.4 million (31 December 2008: euro 16.4 million) and an increase in costs (service cost and interest cost) of euro 1.2 million (31 December 2008: euro 1.3 million).

The change in fair value of the plan assets for the years ended 31 December 2009 and 2008 is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Fair value of plan assets at the beginning of the year	**2,056,627**	**2,233,823**
Actual return on plan assets	210,935	(612,303)
Group contributions	34,209	537,882
Plan participants' contributions	3,199	3,126
Pensions paid by the fund	(109,900)	(101,460)
Exchange differences and other	3,210	(4,441)
Fair value of plan assets at the end of the year	**2,198,280**	**2,056,627**

The fair value of plan assets can be analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Shares	640,861	604,783
Other variable income securities	206,334	337,348
Bonds	622,658	564,293
Real estate assets	447,515	377,435
Other	280,912	172,768
	2,198,280	**2,056,627**

The real estate assets rented to BES Group and securities issued by Group companies which are part of the plan assets are analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Shares	46,859	75,570
Bonds	3,776	11,033
Real estate assets	170,331	127,319
	220,966	**213,922**

As at 31 December 2009, the shares held by the pension fund correspond to 10.3 million shares of BES (31 December 2008: 11.3 million shares of BES).

The transactions held with the pension fund during 2009 are described in Note 41.

The changes in the unrecognised net actuarial losses are analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Unrecognised net actuarial losses at the beginning of the year	**971,172**	**328,087**
Actuarial (gains) / losses		
- changes in actuarial assumptions	(43,152)	(87,684)
- experience adjustments	(39,411)	750,724
Amortisation of the year	(49,638)	(16,907)
Additional amortisation (curtailment)	-	(2,657)
Other	92	(391)
Unrecognised net actuarial losses at the end of the year	**839,063**	**971,172**
Of which:		
Within the corridor	219,459	205,663
Outside the corridor	619,604	765,509

The changes in the (un)/overfunded liabilities are analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
(Un)/overfunded liabilities at the beginning of the year	**(8,247)**	**152,783**
Actuarial (gains) / losses on defined benefit obligation	(8,431)	64,174
Actuarial (gains) / losses of plan assets	90,994	(727,214)
Charges for the year:		
- Service cost	(40,766)	(40,789)
- Interest cost	(114,854)	(111,464)
- Expected return on plan assets	119,941	114,911
- Curtailment losses related to early retirements	-	(5,389)
- Other	198	1,080
Contributions of the year and pensions paid by the Group	34,243	543,661
(Un)/over funded liabilities at the end of the year	**73,078**	**(8,247)**

The additional amortisation of the unrecognised net actuarial losses related to early retirements in 2008 was recognised through the charge-off of provisions (see Note 33).

The net periodic benefit cost can be analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Service cost	40,766	40,789
Interest cost	114,854	111,464
Expected return on plan assets	(119,941)	(114,911)
Amortisation of the year	49,638	16,907
Net benefit cost	**85,317**	**54,249**

The changes in the assets/ (liabilities) recognised in the balance sheet is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
At the beginning of the year	**962,925**	**480,870**
Net periodic benefit cost	(85,317)	(54,249)
Charge-off of provisions	-	(8,046)
Contributions of the year and pensions paid by the Group	34,243	543,661
Other	290	689
At the end of the year	**912,141**	**962,925**

The evolution of the defined benefit obligations, fair value of plan assets and of the experience adjustments gains/ (losses) in the past 5 years, is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
Defined benefit obligation					
Pension plans	(2,016,799)	(1,958,118)	(1,970,365)	(1,891,647)	(1,826,346)
Health-care benefits	(108,403)	(106,756)	(110,675)	(109,797)	(117,330)
	(2,125,202)	(2,064,874)	(2,081,040)	(2,001,444)	(1,943,676)
Fair value of plan asssets	2,198,280	2,056,627	2,233,823	2,028,780	1,816,229
(Un)/over funded liabilities	**73,078**	**(8,247)**	**152,783**	**27,336**	**(127,447)**
(Gains)/losses from experience adjustments arising on defined benefit obligation					
Pension plans	50,034	23,491	42,590	3,460	39,592
Health-care benefits	1,549	19	(1,881)	(11,577)	6,548
(Gains)/losses from experience adjustments arising on plan assets	(90,994)	727,214	(157,635)	(140,990)	(69,709)

SIBA

During 2000, BES Group established a "Share Based Incentive Scheme" (SIBA). This incentive scheme consists on the sale to BES employees of one or more blocks of BES ordinary shares with deferred settlement for a period that can vary between two to four years. During this period the employees are required to hold the shares, after which they are allowed to (i) sell the shares in the market, (ii) hold the shares, proceeding in this case, to the payment of the debt to the Bank or, alternatively, (iii) have the option to sell them back to BES at acquisition cost.

The main characteristics of each plan are presented as follows:

	Plan maturity (expected)	Number of shares at the grant date	Average strike price (euro)	Number of shares as at 31.12.2009 [1]	Coverage by shares
Plan 2002					
2nd block	Expired (Apr-08)	1,762,619	12.02	-	-
Plan 2003					
1st block	Expired (May-08)	480,576	14.00	-	-
2nd block	Expired (May-09)	1,121,343	14.00	-	-
Plan 2004					
1st block	Expired (Dec-09)	541,599	13.54	-	-
2nd block	Dec-10	1,270,175	13.54	1,276,261	100%

1) Includes shares attributed under the incorporation of shares premium as a result of the capital increase in 2006.

The changes in the number of underlying shares to the outstanding plans during the years ended 31 December 2009 and 31 December 2008, were as follows:

	31.12.2009		31.12.2008	
	Number of shares	Amount (thousands of euro)	Number of shares	Amount (thousands of euro)
Balance at the beginning of the year	2,479,081	29,838	3,484,262	41,437
Shares sold [1)]	(1,202,820)	(4,755)	(1,005,181)	(11,599)
Balance at the end of the year	**1,276,261**	**25,083**	**2,479,081**	**29,838**

1) Includes shares sold in the market, after the exercise by the employees of the option of sell back to BES at acquisition cost and those that were paid by the employees at the maturity of the plans.

The assumptions used in the initial valuation of each plan were the following:

	Plan 2004	Plan 2003	Plan 2002
Maturity			
1st block	24 months	Expired	Expired
2nd block	60 months	Expired	Expired
Volatility	12%	12%	12%
Risk free interest rate			
1st block	3.04%	2.63%	2.70%
2nd block	3.22%	3.52%	3.56%
Dividend yield	2.90%	2.90%	2.90%
Fair value at the grant date (thousands of euro)	2,305	2,431,193	2,830

The total costs recognised related to the plan for the years ended 31 December 2009 and 2008, were as follows:

in thousands of euro

	31.12.2009	31.12.2008
Total costs of the plans (see Note 11)	362	703

The costs with the plans were recognised as staff costs against other reserves, in accordance with the accounting policy described in Note 2.15.

Variable remuneration payment plan (PPRV)

During the first semester of 2008, following the General Shareholders Meeting held on 31 March 2008, BES and its subsidiaries established a benefits payment scheme, named Variable Remuneration Payment Plan (PPRV – 2008/2010).

Under this incentive scheme, BES Group employees have the right to a future cash payment equivalent to the appreciation of BES shares between the initial reference date and the final reference date. The PPRV is not a plan where stocks or stock options are granted to employees. Under this plan no rights are granted to employees equivalent to a shareholding position in BES.

The plans' initial fair value was calculated using an option valuation model with the following assumptions:

	Assumptions at the beginning of PPRV	After the capital increase in 2009 [a)]
Inicial reference date	02-Jun-2008	
Final reference date	02-Jun-2011	
Rights granted to employees	5,000,000	8,285,626
Reference price (in EUR)	11.00	6.64
Interest rate	5.22%	
Volatility	33.5%	
Inicial fair value of the plan (in thousands of euro)	12,902	

a) Includes the adjustment of the dilutive effect arising from the capital increase

In accordance with the accounting policy described in Note 2.15, the initial fair value of the PPRV, in the amount of euro 12 902 thousands, will be recognised as staff costs during the three year period comprised between the initial and the final reference dates. As such, the Group recognised during 2009, as staff costs, the amount of euro 4,301 thousands (31 December 2008: euro 2 509 thousands). The change in the fair value of the benefit granted to employees during the life of the program will be recognised as a profit/loss from financial assets at fair value through profit or loss.

The fair value of the liability recognised is reameasured at the end of each month, amounting at 31 December 2009 to euro 394 thousands (31 December 2008: euro 812 thousands).

Long-term service benefits

As referred in Note 2.15, for employees that achieve certain years of service, the Bank pays long term service premiums, calculated based on the effective monthly remuneration earned at the date the premiums are due. At the date of early retirement or disability, employees have the right to a premium proportional to that they would earn if they remained in service until the next payment date.

As at 31 December 2009 and 2008, the Groups' liabilities regarding this benefits amount to euro 28,602 thousands and euro 27,412 thousands, respectively (see Note 36). The costs incurred in the year ended 31 December 2009 with long-term service benefits amounted to euro 3,014 thousands (31 December 2008: euro 5,545 thousands).

The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable).

NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

in thousands of euro

	31.12.2009	**31.12.2008**
Rental costs	65,118	62,647
Advertising costs	42,449	44,911
Communication costs	36,039	39,148
Maintenance and related services	16,585	16,131
Travelling and representation costs	27,829	31,179
Transportation	10,085	11,408
Insurance costs	6,630	6,373
IT services	55,450	50,327
Independent work	6,994	8,400
Temporary work	7,354	10,816
Electronic payment systems	12,707	12,321
Advisory services	14,373	12,035
Legal costs	17,894	10,137
Consultants and external auditors	8,888	11,536
Water, energy and fuel	9,968	10,013
Consumables	5,808	6,232
Other costs	58,383	59,031
	402,554	**402,645**

The balance other costs includes, among others, specialised services with security, information, databases, costs with training and external suppliers.

The outstanding lease installments related to the non-cancelable operational leasing contracts were as follows:

in thousands of euro

	31.12.2009	**31.12.2008**
Up to 1 year	904	960
1 to 5 years	3,705	4,413
	4,609	**5,373**

The fees invoiced during 2009 by the external analists are presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Audit services fees	2,047	2,070
Other assurance services arising from the external audit function	1,090	915
Tax consultancy services	514	416
Other services	4,163	2,344
Total	**7,814**	**5,745**

NOTE 14 – EARNINGS PER SHARE

Basic earnings per share

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

in thousands of euro

	31.12.2009	31.12.2008
Profit attributable to the equity holders of the Bank [1]	**488,634**	**368,804**
Weighted average number of ordinary shares (thousands)	1,000,000	500,000
Weighted average number of treasury stock (thousands)	1,826	2,698
Weighted average number of ordinary shares outstanding (thousands)	**998,174**	**497,302**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**0.49**	**0.74**

(1) Net profit for the year adjusted by the dividend from preference shares.

Diluted earnings per share

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

The diluted earnings per share are not different from the basic earning per share as the outstanding plans of SIBA do not have a dilutive effect.

NOTE 15 – CASH AND DEPOSITS AT CENTRAL BANKS

As at 31 December 2009 and 2008, this balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Cash	218,595	249,979
Deposits at central banks		
Bank of Portugal	931,906	1,161,186
Other central banks	1,041,816	616,153
	1,973,722	**1,777,339**
	2,192,317	**2,027,318**

The deposits at Central Banks includes mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements, for an amount of euro 641,802 thousands (31 December 2008: euro 767,966 thousands). According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. As at 31 December 2009, the interest earnings average rate of these deposits was 1.27% (31 December 2008: 4.07%).

60,561
37,122
213,172
285,873

NOTE 16 – DEPOSITS WITH BANKS

As at 31 December 2009 and 2008, this balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Deposits with banks in Portugal		
Uncollected cheques	213,172	285,873
Repayable on demand	60,561	37,122
	273,733	**322,995**
Deposits with banks abroad		
Repayable on demand	159,660	124,572
Uncollected cheques	825	3,263
Other	176,356	213,580
	336,841	**341,415**
	610,574	**664,410**

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

NOTE 17 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2009 and 2008, this balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	2,379,701	1,553,513
Issued by other entities	83,083	97,949
Shares	70,559	15,148
Other variable income securities	-	2,889
	2,533,343	**1,669,499**
Derivatives		
Derivative financial instruments with positive fair value		
	1,926,141	2,020,663
	4,459,484	**3,690,162**
Financial liabilities held for trading		
Derivatives		
Derivative financial instruments with negative fair value	**1,561,143**	**1,914,423**

As at 31 December 2009 and 2008 the analysis of the securities held for trading by the period to maturity, is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	724,877	631,732
3 to 12 months	915,404	453,479
1 to 5 years	298,938	250,503
More than 5 years	523,565	318,637
Undetermined	70,559	15,148
	2,533,343	**1,669,499**

Financial assets held-for-trading analysed by quoted and unquoted securities, are presented as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	2,371,692	8,009	2,379,701	1,553,513	-	1,553,513
Issued by other entities	5,213	77,870	83,083	44,781	53,168	97,949
Shares	68,217	2,342	70,559	15,148	-	15,148
Other variable income securities	-	-	-	2,889	-	2,889
	2,445,122	**88,221**	**2,533,343**	**1,616 331**	**53,168**	**1,669 499**

In accordance with the accounting policy described in Note 2.6, securities held for trading are those which are bought to be traded in the short-term, regardless of their maturity.

As at 31 December 2009 and 2008, derivative financial instruments can be analysed as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	1,055,945	14,802	7,244	1,183,408	37,508	71,332
- sell	946,493			1,186,093		
Currency Swaps						
- buy	1,336,825	3,230	2,325	1,215,715	3,818	3,629
- sell	1,331,185			1,229,832		
Currency Futures	52,604	-	-	10,571	-	-
Currency Interest Rate Swaps	-					
- buy	1,355,584	196,850	186,836	1,069,029	154,559	214,750
- sell	1,336,190			926,160		
Currency Options	5,131,966	131 597	120,811	7,710,712	270 688	188 371
	12,546,792	**346,479**	**317,216**	**14,531,520**	**466 573**	**478 082**
Interest rate contracts						
Forward Rate Agreements	215,189	16	58	1,669,564	1 217	1 471
Interest Rate Swaps	39,146,226	1,333,495	985,972	54,969,373	1 179 392	974 341
Swaption - Interest Rate Options	7,623,745	12,835	11,678	5,220,548	8 662	7 745
Interest Rate Caps & Floors	9,389,755	75,835	45,483	9,138,244	67 187	40 568
Interest Rate Futures	5,000	-	-	1,314,551	-	-
Interest Rate Options	4,426,549	816	358	-	-	-
Future Options	63,730	-	-	20,972,550	-	-
	60,870,194	**1,422,997**	**1,043,549**	**93,284,830**	**1 256 458**	**1 024 125**
Equity / index contracts						
Equity / Index Swaps	963,363	34,219	41,627	868,417	50 927	61 284
Equity / Index Options	2,273,747	84,791	124,241	4,292,082	186 671	284 943
Equity / Index Futures	362,071	-	-	102,944	-	-
Future Options	153,984	-	-	-	-	-
	3,753,165	**119,010**	**165,868**	**5,263,443**	**237 598**	**346 227**
Credit default contracts						
Credit Default Swaps	2,971,504	37,655	34,510	2,779,578	60 034	65 989
Total	**80,141,655**	**1,926,141**	**1,561,143**	**115,859,371**	**2 020 663**	**1 914 423**

As at 31 December 2009 the fair value of derivative financial instruments included the net amount of euro 28.1 million (31 December 2008: negative in the amount of euro 5.2 million) related to the negative fair value of the embedded derivates, as described in Note 2.4.

As at 31 December 2009 and 2008, the analysis of trading derivatives by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009		31.12.2008	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	9,803,294	14,640	22,159,442	(130,834)
3 to 12 months	12,641,266	202,404	27,487,970	159,994
1 to 5 years	23,203,837	12,255	49,399,017	76,824
More than 5 years	34,493,258	135,699	16,812,942	256
	80,141,655	**364,998**	**115,859,371**	**106,240**

NOTE 18 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Bonds and other fixed income securities		
Issued by other entities	780,466	1,324,543
Shares	12,821	7,146
Other securities	209,014	830,124
	1,002,301	**2,161,813**

In light of IAS 39 and in accordance with the accounting policy described in Note 2.6, the Group designated these financial assets at fair value through profit or loss, in accordance with the documented risk management and investment strategy, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

As at 31 December 2009 and 2008, the analysis of the financial assets at fair value through profit or loss by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	30,537	63,661
3 to 12 months	36,311	568,825
1 to 5 years	596,125	737,263
More than 5 years	244,104	618,127
Undetermined	95,224	173,937
	1,002,301	**2,161,813**

Regarding quoted or unquoted securities, the balance financial assets at fair value through profit or loss, is presented as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by other entities	150,422	630,044	780,466	716,453	608,090	1,324,543
Shares	12,821	-	12,821	7,146	-	7,146
Other variable income securities	-	209,014	209,014	167,000	663,124	830,124
	163,243	**839,058**	**1,002,301**	**890,599**	**1,271,214**	**2,161,813**

NOTE 19 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2009 and 2008, this balance is analysed as follows:

in thousands of euro

	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	2,104,239	1,260	(41)	-	2,105,458
Issued by other entities	3,221,054	14,506	(17,044)	(32,219)	3,186,297
Shares	2,274,334	441,691	(52,733)	(78,445)	2,584,847
Other variable income securities	681,048	9,957	(8,781)	(27,226)	654,998
Balance as at 31 December 2009	**8,280,675**	**467,414**	**(78,599)**	**(137,890)**	**8,531,600**
Bonds and other fixed income securities					
Issued by government and public entities	1,886,264	2,706	(20)	-	1,888,950
Issued by other entities	3,133,588	7,254	(34,170)	(27,046)	3,079,626
Shares	1,680,787	36,655	(228,018)	(67,346)	1,422,078
Other variable income securities	709,966	12,105	(6,846)	(11,768)	703,457
Balance as at 31 December 2008	**7,410,605**	**58,720**	**(269,054)**	**(106,160)**	**7,094,111**

(1) Acquisition cost relating to shares and other variable income securities and amortised cost relating to debt securities.

In accordance with the accounting policy described in Note 2.6, the Group assesses periodically whether there is objective evidence of impairment on the available-for-sale financial assets, following the judgment criteria's described in Note 3.1.

The securities pledged as collateral by the Group are analysed in Note 39.

The changes occurred in impairment losses of available-for-sale financial assets are presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Balance at the beginning of the year	**106,160**	**64,101**
Charge for the year	30,970	57,678
Charge off	(29,738)	(19,946)
Write back for the year	(2,101)	(32)
Exchange differences and other [a]	32,599	4,359
Balance at the end of the year	**137,890**	**106,160**

a) As at 31 December 2009, includes euro 21 214 thousands related with debt securitisation operations.

As at 31 December 2009 and 2008, the analysis of available-for-sale assets by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	1,430,724	1,331,963
3 to 12 months	1,124,549	1,227,702
1 to 5 years	1,198,059	926,654
More than 5 years	1,540,455	1,482,257
Undetermined	3,237,813	2,125,535
	8,531,600	**7,094,111**

The main equity exposures that contribute to the fair value reserve, as at 31 December 2009 and 2008, can be analysed as follows:

in thousands of euro

Description	31.12.2009				
	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Banco Bradesco	696,267	316,762	-	-	1,013,029
Portugal Telecom	493,639	67,361	-	-	561,000
EDP	345,589	-	(601)	-	344,988
Banque Marocaine du Commerce Extérieur	2,480	7,309	-	(682)	9,107
	1,537,975	**391,432**	**(601)**	**(682)**	**1,928,124**

in thousands of euro

Descrição	31.12.2008				
	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Banco Bradesco	412,745	-	(20,493)	-	392,252
Portugal Telecom	454,356	-	(91,222)	-	363,134
EDP	375,893	-	(75,815)	-	300,078
Banque Marocaine du Commerce Extérieur	2,480	7,963	-	(682)	9,761
	1,245,474	**7,963**	**(187,530)**	**(682)**	**1,065,225**

As at 31 December 2009 and 2008, the unrealized losses related with the main equity exposures under the available-for-sale financial assets category were recognised in the fair value reserve, as they did not met with the judgment criteria's applied for impairment recognition, namely the decline in market value above 30% in relation to the acquisition cost or market value below the acquisition cost for a period longer than twelve-months.

During 2009, the Group set up AVISTAR, SGPS, S.A., with the purpose of holding the Group strategic participations. AVISTAR has acquired in the stock-exchange at market prices, shares of EDP, PT and Banco Bradesco, becoming the Group to hold, respectivelly, 111.0 millions shares, 65.8 millions shares and 85.3 millions shares of these entities.

During 2008, BES acquired 36.5 millions shares of Banco Bradesco, adjusted by the stock split, by an amount of euro 359.8 millions. Also during 2008, BES sold 42.7 millions shares of Banco Bradesco by an amount of euro 510.7 millions, 38 millions of which were sold to BES Vida. During 2008, BES Vida sold all Bradesco shares (see Note 8 and Note 41). Following these transactions, the investment funds managed by ESAF – Fundos de Investimento Mobiliário, S.A. and the Group's Pension Fund acquired 25.3 millions shares of Banco Bradesco by an amount of euro 290.5 millions and 5 millions shares of Banco Bradesco by an amount of euro 67.1 millions, respectively.

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

in thousands of euro

	31.12.2009			31.12.2008		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	159,441	1,946,017	2,105,458	149,036	1,739,914	1,888,950
Issued by other entities	454,805	2,731,492	3,186,297	1,244,249	1,835,377	3,079,626
Shares	2,316,592	268,255	2,584,847	1,180,678	241,400	1,422,078
Other variable income securities	176,615	478,383	654,998	73,840	629,617	703,457
	3,107,453	**5,424,147**	**8,531,600**	**2,647,803**	**4,446,308**	**7,094,111**

NOTE 20 – LOANS AND ADVANCES TO BANKS

As at 31 December 2009 and 2008, this balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Loans and advances to banks in Portugal		
Inter-bank money market	20,826	1,326
Deposits	4,081,424	140,508
Loans	114,621	112,593
Very short term deposits	26,504	58,266
Other loans and advances	68,077	173,022
	4,311,452	485,715
Loans and advances to banks abroad		
Deposits	1,307,458	1,605,619
Very short term deposits	736,848	191,584
Loans	1,602,218	1,998,801
Other loans and advances	40,247	251,286
	3,686,771	4,047,290
Impairment losses	(416)	(1,022)
	7,997,807	4,531,983

The main loans and advances to banks in Portugal, as at 31 December 2009, bear interest at an average annual interest rate of 1.44% (31 December 2008: 4.41%). Loans and advances to banks abroad bear interest at international market rates where the Group operates.

As at 31 December 2009, the balance loans and advances to banks in Portugal includes deposits in the European Central Banks Sistem (Bank of Portugal) in the amount of euro 3,750 millions.

As at 31 December 2009, this balance include euro 776,786 thousands (31 December 2008: euro 33,635 thousands) of loans and advances to banks at fair value through profit or loss (see Note 23).

As at 31 December 2009 and 2008, the analysis of loans and advances to banks by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	7,089,360	2,472,849
3 to 12 months	671,297	1,347,718
1 to 5 years	210,929	352,317
More than 5 years	25,965	354,970
Undetermined	672	5,151
	7,998,223	4,533,005

The changes occurred during the year in impairment losses of loans and advances to banks are presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Balance at the begining of the year	**1,022**	**1,204**
Charge for the year	410	417
Write back for the year	(1,511)	(656)
Exchange differences and other	495	57
Balance at the end of the year	**416**	**1,022**

NOTE 21 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2009 and 2008, this balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Domestic loans		
Corporate		
Loans	13,045,107	11,927,971
Commercial lines of credits	5,036,175	5,653,679
Finance leases	3,235,795	3,086,997
Discounted bills	684,152	906,749
Factoring	1,551,064	1,096,588
Overdrafts	51,705	37,647
Other loans	173,276	266,223
Retail		
Mortgage loans	10,726,226	10,394,044
Consumer and other loans	2,404,614	2,394,856
	36,908,114	35,764,754
Foreign loans		
Corporate		
Loans	7,603,437	6,436,457
Commercial lines of credits	2,041,724	2,076,222
Finance leases	250,012	293,250
Discounted bills	197,423	179,742
Factoring	50,929	77,692
Overdrafts	211,558	276,742
Other loans	1,556,885	1,585,150
Retail		
Mortgage loans	505,036	551,043
Consumer and other loans	312,573	319,548
	12,729,577	11,795,846
Overdue loans and interest		
Up to 3 months	82,852	112,777
From 3 months to 1 year	290,551	174,977
From 1 to 3 years	353,038	229,075
More than 3 years	167,022	120,110
	893,463	636,939
	50,531,154	48,197,539
Impairment losses	(1,552,307)	(1,148,065)
	48,978,847	47,049,474

As at 31 December 2009, the balance loans and advances to customers (net of impairment losses) includes an amount of euro 4,346.4 million (31 December 2008: euro 4,408.0 million) related to securitised loans following the consolidation of securitisation vehicles (see Note 42), according to the accounting policy described in Note 2.2. The liabilities related to these securitisations are booked under debt securities issued (see Notes 32 and 42).

As at 31 December 2009, loans and advances includes euro 4,053,833 thousands of mortgage loans that collateralise the issue of covered bonds (31 December 2008: euro 2,722,664 thousands) (see Note 32).

As at 31 December 2009, this balance includes euro 609,840 thousands (31 December 2008: euro 605,737 thousands) of loans at fair value through profit or loss (see Note 23).

The fair value of loans and advances to customers is presented in Note 43.

As at 31 December 2009 and 2008, the analysis of loans and advances to customers by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	6,408,614	6,503,207
3 to 12 months	5,586,634	4,869,629
1 to 5 years	12,561,896	10,393,506
More than 5 years	25,080,547	25,794,258
Undetermined	893,463	636,939
	50,531,154	48,197,539

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

in thousands of euro

	31.12.2009	31.12.2008
Balance at the beginning of the year	1,148,065	990,395
Charge for the year	598,965	312,950
Charge off	(85,362)	(87,441)
Write back for the year	(59,024)	(38,519)
Unwind of discount	(18,626)	(16,190)
Exchange differences and other [a)]	(31,711)	(13,130)
Balance at the end of the year	**1,552,307**	**1,148,065**

a) As at 31 December 2009, includes euro (21 214) thousands related with debt securitisation operations.

The unwind of discount represents the interest on overdue loans, recognised as interest and similar income, as impairment losses are calculated using the discounted cash flows method.

As at 31 December 2009 and 2008, the detail of impairment is as follows:

in thousands of euro

	31.12.2009						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		TOTAL		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Net Loans Impairment
Corporate loans	7,369,360	868,557	28,991,907	315,299	36,361,267	1,183,856	35,177,411
Mortgage loans	1,209,501	187,197	10,143,077	25,336	11,352,578	212,533	11,140,045
Consumers loans - other	503,404	118,710	2,313,905	37,208	2,817,309	155,918	2,661,391
Total	**9,082,265**	**1,174,464**	**41,448,889**	**377,843**	**50,531,154**	**1,552,307**	**48,978,847**

in thousands of euro

	31.12.2008						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		TOTAL		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Net Loans Impairment
Corporate loans	5,343,713	536,339	29,031,563	250,721	34,375,276	787,060	33,588,216
Mortgage loans	1,042,219	205,718	9,978,063	25,428	11,020,282	231,146	10,789,136
Consumers loans - other	304,240	88,745	2,497,741	41,114	2,801,981	129,859	2,672,122
Total	**6,690,172**	**830,802**	**41,507,367**	**317,263**	**48,197,539**	**1,148,065**	**47,049,474**

Loans with impairment losses calculated on an individual basis includes, loans with objective evidence of impairment, overdue loans for over 90 days and restructured loans.

As at 31 December 2009, loans and advances includes euro 103,197 thousands of restructured loans (31 December 2008: euro 63,686 thousands). These loans correspond, in accordance with the definition of the Bank of Portugal, to loans previously overdue, which through a restructuring process are considered as performing loans.

The interest recognised as interest and similar income in relation to these loans amounted to euro 395.6 millions (31 December 2007: euro 334.5 millions), which includes the effect of the unwind of discount in connection with overdue loans.

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

in thousands of euro

	31.12.2009	31.12.2008
Fixed interest rate	4,919,532	5,040,150
Variable interest rate	45,611,622	43,157,389
	50,531,154	**48,197,539**

An analysis of finance lease loans by the period to maturity, is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Gross investment in finance leases, receivable		
Up to 1 year	548,974	607,861
From 1 to 5 years	1,416,826	1,597,098
More than 5 years	1,982,437	1,840,575
	3,948,237	4,045,534
Unearned future finance income on finance leases		
Up to 1 year	46,704	116,372
From 1 to 5 years	154,929	286,542
More than 5 years	260,797	262,697
	462,430	665,611
Net investment in finance leases		
Up to 1 year	502,270	491,813
From 1 to 5 years	1,261,897	1,310,556
More than 5 years	1,721,640	1,577,878
	3,485,807	3,380,247

NOTE 22 – HELD-TO-MATURITY INVESTMENTS

The held-to-maturity investments, can be analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Bonds and other fixed income securities		
Issued by government and public entities	583,578	504,424
Issued by other entities	1,992,816	1,655,772
	2,576,394	2,160,196
Impairment losses	(34,565)	-
	2,541,829	2,160,196

As at 31 December 2009 and 2008, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	128,475	406,203
3 to 12 months	374,843	142,941
1 to 5 years	1,123,850	974,999
More than 5 years	949,226	636,053
	2,576,394	2,160,196

The analysis of the held-to-maturity investments by quoted and unquoted securities, is presented as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	583,578	-	583,578	504,424	-	504,424
Issued by other entities	1,132,075	826,176	1,958,251	1,262,253	393,519	1,655,772
	1,715,653	826,176	2,541,829	1,766,677	393,519	2,160,196

During the year ended 31 December 2008, the Group has reclassified non-derivative financial assets to the held-to-maturity investments category in the amount of euro 767.2 millions, as follows:

in thousands of euro

	Acquisition cost	Reclassification date: Book value	Fair value reserve: Positive	Fair value reserve: Negative	Value of future cash flows a)	Effective rate b)	Market value as at 31 December 2008	Amortisation of the fair value reserve until 31.12.2009
Available-for-sale financial assets	551,897	522,715	424	(29,607)	701,070	5.75%	485,831	8,698
Financial assets held-for-trading	243,114	244,530	-	-	408,976	11.50%	237,295	-
Bonds and other fixed income securities	**795,011**	**767,245**	**424**	**(29,607)**	**1,110,046**		**723,126**	**8,698**

a) Undiscounted capital and interest cash-flows; future interest is calculated based on the forward rates at the date of reclassification.
b) Effective interest rate was calculated based on the forward interest rates at the date of reclassification; the maturity considered was the minimum between the call date, if applicable, and the maturity date of the financial asset.

The reclassification of financial assets held-for-trading as held-to-maturity investments was performed following the amendment to IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures, adopted by the Regulation (EU) n.º 1004/2008 issued in 15 October 2008, as mentioned in the accounting policy described in Note 2.6.

This reclassification was made due to the market conditions following the international financial crisis that characterised the year 2008, which was considered to be one of the rare circumstances justifying the application of the amendment to IAS 39.

During the year 2009, no transfer were made to this cathegory of assets.

During the second half of 2008, BES Group acquired to BES Vida securities that were classified upon initial recognition as held-to-maturity investments, in the amount of euro 689.5 millions, from which euro 517.9 millions were acquired through brokers.

The changes occurred in impairment losses of held-to-maturity investments are presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Balance at the beginning of the year	-	-
Charge for the year	49,181	-
Charge off	(8,140)	-
Write back for the year	(5,074)	-
Exchange differences and other	(1,402)	-
Balance at the end of the year	**34,565**	**-**

NOTE 23 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 31 December 2009 and 2008, the fair value of the derivatives for risk management purposes can be analysed as follows:

in thousands of euro

	31.12.2009			31.12.2008		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives for risk management purposes						
Derivatives for risk management purposes - assets	291,678	163,437	455,115	598,469	337,821	936,290
Derivatives for risk management purposes - liabilities	(92,843)	(160,305)	(253,148)	(193,464)	(534,011)	(727,475)
	198,835	**3,132**	**201,967**	**405,005**	**(196,190)**	**208,815**
Fair value component of assets and liabilities being hedged						
Financial assets						
Securities	-	-	-	-	(726)	(726)
Deposits at banks	-	225	225	-	35	35
Loans and advances to customers	2,227	27,050	29,277	(26,182)	27,929	1,747
	2,227	**27,275**	**29,502**	**(26,182)**	**27,238**	**1,056**
Financial liabilities						
Deposits from banks	(23,805)	(7,720)	(31,525)	(29,920)	8,843 d)	(21,077)
Due to customers	(5,549)	15,468	9,919	(4,088)	10,196	6,108
Debt securities issued	(72,255)	(45,858)	(118,113)	(258,107)	162,953	(95,154)
Subordinated debt	2,566	-	2,566	(17,431)	-	(17,431)
	(99,043)	**(38,110)**	**(137,153)**	**(309,546)**	**181,992**	**(127,554)**
	(96,816)	**(10,835)**	**(107,651)**	**(335,728)**	**209,230**	**(126,498)**

As mentioned in the accounting policy described in Note 2.4, derivatives for risk management purposes include hedging derivatives and derivatives contracted to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss (and that were not designated as hedging derivatives).

Hedging derivatives

As at 31 December 2009 and 2008, the fair value hedge relationships present the following features:

in thousands of euro

31.12.2009							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivative** (2)	**Changes in the fair value of the derivative in the year**	**Fair value component of the hedged item** (1)	**Changes in the fair value of the hedged item in the year** (1)
Interest Rate Swap	Loans and advances to customers	Interest rate	1,436,446	(2,814)	(2,288)	2,227	2,283
Interest Rate Swap	Due to customers	Interest rate	125,417	9,988	1,758	(5,549)	(1,461)
Interest Rate Swap	Deposits from banks	Interest rate	141,044	19,524	(9,545)	(18,641)	9,743
Currency Interest Rate Swap	Deposits from banks	Interest rate and FX	413,748	9,306	1,484	(5,164)	(2,821)
Interest Rate Swap	Debt security issued	Interest rate	5,113,442	164,513	(77,202)	(71,677)	67,936
Currency Interest Rate Swap	Debt security issued	Interest rate and FX	18,887	968	914	(578)	(891)
Currency Interest Rate Swap	Subordinated loans	Interest rate and FX	225,293	(2,650)	30,439	2,566	(14,554)
			7,474,277	**198,835**	**(54,440)**	**(96,816)**	**60,235**

(1) Attributable to the hedged risk
(2) Includes accrued interest

in thousands of euro

31.12.2008							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivative** (2)	**Changes in the fair value of the derivative in the year**	**Fair value component of the hedged item** (1)	**Changes in the fair value of the hedged item in the year** (1)
Currency Interest Rate Swap	Debt security issued	Interest rate and FX	18,605	(27)	(104)	358	16
Currency Interest Rate Swap	Subordinated loans	Interest rate and FX	274,098	(9,390)	19,102	9,196	(19,135)
Currency Interest Rate Swap	Deposits from banks	Interest rate and FX	299,213	(1,763)	(2,415)	(2,243)	2,415
Interest Rate Swap	Domestic loans	Interest rate	197,572	26,603	25,652	(26,182)	(24,894)
Interest Rate Swap	Debt security issued	Interest rate	5,080,698	318,489	286,811	(258,465)	(293,023)
Interest Rate Swap	Subordinated loans	Interest rate	506,600	33,910	26,527	(26,627)	(27,617)
Interest Rate Swap	Due to customers	Interest rate	196,077	8,232	5,572	(4,088)	(5,685)
Interest Rate Swap	Deposits from banks	Interest rate	148,000	28,951	30,660	(27,677)	(30,730)
			6,720,863	**405,005**	**391,805**	**(335,728)**	**(398,653)**

(1) Attributable to the hedged risk
(2) Includes accrued interest

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under net gains/(losses) from financial assets at fair value through profit or loss.

As at 31 December 2009, the ineffectiveness of the fair value hedge operations amounted to euro 5.8 millions (31 December 2008: euro 6.8 millions) and was recognised in the income statement. BES Group evaluates on an ongoing basis the effectiveness of the hedges.

Other derivatives for risk management purposes

Other derivatives for risk management purposes includes derivatives held to hedge assets and liabilities at fair value through profit and loss in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8 and that the Group did not classified as hedging derivatives.

The book value of assets and liabilities at fair value through profit and loss can be analysed as follows:

in thousands of euro

31.12.2009								
		Derivative			Assets/liabilities associated			
Derivative	**Financial assets/ liabilities economically hedged**	**Notional**	**Fair Value**	**Changes in the fair value during the year**	**Fair Value**	**Changes in the fair value during the year**	**Book Value**	**Reimbursement amount at maturity date [1]**
	Assets							
FX Swap	Loans and advances to banks	805,061	343	(498)	225	190	776,786	776,561
Interest Rate Swap	Loans and advances to customers	589,600	(30,280)	4,494	27,050	(859)	609,840	582,860
	Liabilities							
Interest Rate Swap	Deposits from banks	27,839	14,075	(3,208)	(7,703)	(35,417)	66,874	75,402
FX Swap	Deposits from banks	74,426	35	174	(17)	(14)	34,724	34,708
Interest Rate Swap	Due to customers	573,000	15,163	12,089	15,468	(15,493)	1,437,369	1,414,952
Interest Rate Swap	Debt security issued	412,715	4,977	35,269	(12,907)	(37,376)	460,286	500,026
Currency Interest Rate Swap	Debt security issued	68,399	(336)	497	515	(954)	67,949	68,399
FX Forward	Debt security issued	6,799,523	822	(2,621)	(1,267)	867	7,357,541	7,358,474
Credit Default Swap	Debt security issued	63,254	(287)	6,218	(2,757)	(5,734)	106,181	102,896
Equity Swap	Debt security issued	334,215	(1,827)	93,094	(29,167)	(90,361)	261,801	228,585
Equity Option	Debt security issued	4,615	447	447	(275)	(19)	447	407
		9,752,647	**3,132**	**145,955**	**(10,835)**	**(185,170)**	**11,179,798**	**11,143,270**

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity.

in thousands of euro

31.12.2008								
		Derivative			Assets/liabilities associated			
Derivative	**Financial assets/ liabilities economically hedged**	**Notional**	**Fair Value**	**Changes in the fair value during the year**	**Fair Value**	**Changes in the fair value during the year**	**Book Value**	**Reimbursement amount at maturity date [1]**
	Assets							
FX swap	Loans and advances to banks	33,670	(145)	(145)	35	35	33,635	33,635
Interest Rate Swap	Securities	231,514	280	280	(726)	3,216	226,000	226,000
Interest Rate Swap	Loans and advances to customers	563,308	(27,073)	(19,204)	27 929	27,312	605,737	579,291
	Liabilities							
Credit Default Swap	Debt security issued	50,045	(7,031)	(7,201)	5 214	5,340	39,907	47,221
Currency Interest Rate Swap	Debt security issued	41,283	(1,127)	(6,315)	1 374	7,848	61,382	53,543
Equity/ Index Swap	Debt security issued	452,832	(42,689)	(39,794)	55 745	58,923	226,469	289,044
Index swap	Debt security issued	49,281	(547)	(1,369)	222	997	47,191	47,201
Interest Rate Swap / Forwards	Debt security issued	1,456,159	(119,409)	(121,802)	101 106	54,440	1,344,094	1,402,724
Interest Rate Swap e FX Options	Debt security issued	10,390	521	521	(708)	(708)	3,784	4,153
Credit Default Swap	Deposits from banks	150,000	(1,050)	(1,082)	1 083	1,083	148,917	150,000
FX swap	Deposits from banks	1,494,617	1,129	1,129	(436)	(436)	1,484,940	1,484,940
Interest Rate e Credit Default Swap	Deposits from banks	39,020	(416)	(416)	332	332	28,092	27,760
Interest Rate Swap	Deposits from banks	7,894	(301)	(301)	7 864	7,864	8,135	8,523
Index Swap / Interest Rate Swap	Due to customers	25,838	1,668	(20,179)	10 196	9,570	122,630	112,434
		4,605,851	**(196,190)**	**(215,878)**	**209 230**	**175,816**	**4,380,913**	**4,466,469**

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity.

As at 31 December 2009, the fair value component of the financial liabilities at fair value through profits and losses, attributable to the Group's own credit risk, amounts to euro 68,755 thousands of cumulative profits (31 December 2008: euro 109,725 thousands, of profits) and euro 40,970 thousands of profits for the year (31 December 2008: euro 102,126 thousands, of profits).

As at 31 December 2009 and 2008, the analysis of fair value hedge transactions by the period to maturity is as follows:

in thousands of euro

	31.12.2009		31.12.2008	
	Notional	**Fair Value**	**Notional**	**Fair Value**
Up to 3 months	6,924,107	(7,651)	2,035,991	(107,611)
3 to 12 months	2,677,758	65,787	1,318,965	(63,654)
1 to 5 years	5,361,209	126,035	5,518,979	101,442
More than 5 years	2,263,850	17,796	2,452,779	278,638
	17,226,924	**201,967**	**11,326,714**	**208,815**

NOTE 24 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This balance as at 31 December 2009 and 2008 is analysed as follows:

in thousands of euro

	31.12.2009		31.12.2008	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	**36,484**	**21,609**	**17,042**	**12,827**
Property held for sale	421,704	-	283,812	-
Equipment	2,063	-	1,413	-
	423,767	**-**	**285,225**	**-**
Impairment losses	(52,666)	-	(31,379)	-
	371,101	**-**	**253,846**	**-**
	407,585	**21,609**	**270,888**	**12,827**

The amounts presented refer to investments in companies controlled by the Group, which have been acquired exclusively with the purpose of being sold in the short term, and assets acquired in exchange for loans and discontinued branches available for immediate sale.

As at 31 December 2009, the amount of property held for sale includes euro 35,558 thousands (31 December 2008: euro 31,367 thousands) related to discontinued branches, in relation to which the Group recognised an impairment loss amounting to euro 8,764 thousands (31 December 2008: euro 6,863 thousands).

The changes occurred in non-current assets held for sale during 2009 and 2008, are presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Balance at the beginning of the year	**302,267**	**386,099**
Additions	399,959	162,075
Sales	(242,540)	(247,241)
Other	565	1,334
Balance at the end of the year	**460,251**	**302,267**

Following the sales occurred in 2009, the Group incurred on a loss in the amount of euro 14,012 thousands (31 December 2008: loss of euro 1,994 thousands).

The changes occurred in impairment losses are presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Balance at the beginning of the year	**31,379**	**15,035**
Charge for the year	36,960	21,779
Charge off	(15,628)	(4,848)
Write back for the year	(38)	(217)
Exchange differences and other	(7)	(370)
Balance at the end of the year	**52,666**	**31,379**

NOTE 25 – PROPERTY AND EQUIPMENT

As at 31 December 2009 and 2008 this balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Property		
For own use	425,429	407,858
Improvements in leasehold property	230,473	223,583
Other	570	341
	656,472	631,782
Equipment		
Computer equipment	267,317	259,047
Fixtures	128,045	118,922
Furniture	121,645	116,769
Security equipment	34,203	31,021
Office equipment	34,433	33,665
Motor vehicles	6,212	5,400
Other	5,470	5,340
	597,325	570,164
Other	825	895
	1,254,622	1,202,841
Work in progress		
Improvements in leasehold property	2,160	2,376
Property for own use	116,675	101,104
Equipment	4,790	9,430
Other	299	1,026
	123,924	113,936
	1,378,546	1,316,777
Accumulated depreciation	(719,773)	(678,290)
	658,773	638,487

The movement in this balance was as follows:

in thousands of euro

	Property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2007	**610,625**	**526,122**	**557**	**46,623**	**1,183,927**
Acquisitions	11,413	29,728	-	124,250	165,391
Disposals	(2,490)	(9,677)	-	(2)	(12,169)
Transfers [a)]	11,363	27,677	324	(57,864)	(18,500)
Exchange differences and other	2,003	(531)	14	929	2,415
ES Contact Center deconsolidation	(1,132)	(3,155)	-	-	(4,287)
Balance as at 31 December 2008	**631,782**	**570,164**	**895**	**113,936**	**1,316,777**
Acquisitions	7,117	22,068	-	70,312	99,497
Disposals	(2,220)	(4,716)	(2)	-	(6,938)
Transfers [b)]	25,668	12,183	-	(43,768)	(5,917)
Exchange differences and other	(5,875)	(2,374)	(68)	(16,556)	(24,873)
Balance as at 31 December 2009	**656,472**	**597,325**	**825**	**123,924**	**1,378,546**
Depreciation					
Balance as at 31 December 2007	**229,999**	**415,858**	**302**	**-**	**646,159**
Depreciation of the year	17,920	30,815	201	-	48,936
Disposals	(2,483)	(9,192)	-	-	(11,675)
Transfers [a)]	(1,873)	(1,134)	-	-	(3,007)
Exchange differences and other	363	(40)	(160)	-	163
S Contact Center deconsolidation	(72)	(2,171)	(43)	-	(2,286)
Balance as at 31 December 2008	**243,854**	**434,136**	**300**	**-**	**678,290**
Depreciation of the year	18,740	33,306	155	-	52,201
Disposals	(2,214)	(4,696)	(2)	-	(6,912)
Transfers [b)]	(1,628)	(98)	-	-	(1,726)
Exchange differences and other	(561)	(1,345)	(174)	-	(2,080)
Balance as at 31 December 2009	**258,191**	**461,303**	**279**	**-**	**719,773**
Net amount as at 31 December 2009	**398,281**	**136,022**	**546**	**123,924**	**658,773**
Net amount as at 31 December 2008	**387,928**	**136,028**	**595**	**113,936**	**638,487**

a) Includes the amount of euro 18,500 thousands related to the acquisition costs and euro 3,007 thousands of accumulated depreciations transferred to the balance other assets, referring to discontinued branches.
b) Includes the amount of euro 5,917 thousands related to the acquisition costs and euro 1,726 thousands of accumulated depreciations transferred to the balance other assets, referring to discontinued branches.

The balance Equipment – Motor vehicles includes equipment acquired under finance lease agreements, whose payment schedule is as follows:

in thousands of euro

	31.12.2009	31.12.2008
Gross investment in finance leases, payable		
Up to 1 year	23	22
1 to 5 years	68	92
	91	**114**
Overdue interest		
Up to 1 year	4	3
1 to 5 years	8	12
	12	**15**
Overdue loans		
Up to 1 year	19	19
1 to 5 years	60	80
	79	**99**

NOTE 26 – INTANGIBLE ASSETS

As at 31 December 2009 and 2008 this balance is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Goodwill	**17,287**	**15,465**
Internally developed		
Software	28,479	20,847
Acquired to third parties		
Software	517,338	483,475
Other	1,301	1,025
	518,639	**484,500**
Work in progress	**27,549**	**21,210**
	591,954	**542,022**
Accumulated amortisation	(452,326)	(417,806)
Impairment losses	(1,743)	-
	137,885	**124,216**

The balance internally developed software includes the costs incurred by the Group in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.13).

The movement in this balance was as follows:

in thousands of euro

	Goodwill	Software	Others	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2007	**7,441**	**441,609**	**1,099**	**31,106**	**481,255**
Acquisitions:					
Internally developed	-	142	-	8,173	8,315
Acquired from third parties	8,147	16,134	74	30,701	55,056
Disposals	-	(390)	(31)	-	(421)
Transfers	-	48,908	(108)	(48,800)	-
Exchange differences and other	(123)	(434)	23	30	(504)
ES Contact Center deconsolidation	-	(1,647)	(32)	-	(1,679)
Balance as at 31 December 2008	**15,465**	**504,322**	**1,025**	**21,210**	**542,022**
Acquisitions:					
Internally developed	-	-	-	8,621	8,621
Acquired from third parties	5,501	11,153	115	29,934	46,703
Disposals [a)]	(3,691)	(2)	-	-	(3,693)
Transfers	-	32,034	175	(32,209)	-
Exchange differences and other	12	(1,690)	(14)	(7)	(1,699)
Balance as at 31 December 2009	**17,287**	**545,817**	**1,301**	**27,549**	**591,954**
Amortisations					
Balance as at 31 December 2007	**-**	**388,985**	**1,099**	**-**	**390,084**
Amortisations of the year	-	28,731	239	-	28,970
Disposals	-	(352)	(31)	-	(383)
Transfers	-	(512)	512	-	-
Exchange differences and other	-	64	7	-	71
ES Contact Center deconsolidation	-	-	(936)	-	(936)
Balance as at 31 December 2008	**-**	**416,916**	**890**	**-**	**417,806**
Amortisations of the year	-	34,906	154	-	35,060
Disposals	-	(1)	-	-	(1)
Exchange differences and other	-	(523)	(16)	-	(539)
Balance as at 31 December 2009	**-**	**451,298**	**1,028**	**-**	**452,326**
Impairment					
Balance as at 31 December 2008	**-**	**-**	**-**	**-**	**-**
Impairment losses [b)]	956	-	-	-	956
Exchange differences and other	787	-	-	-	787
Balance as at 31 December 2009	**1,743**	**-**	**-**	**-**	**1,743**
Balance as at 31 December 2009	**15,544**	**94,519**	**273**	**27,549**	**137,885**
Balance as at 31 December 2008	**15,465**	**87,406**	**135**	**21,210**	**124,216**

(a) In the scope of ES Data liquidation, the goodwill in the amount of euro 3,691 thousands was recognised against the income statement
(b) Concordia goodwill impairment

The amount related to goodwill is mainly due to the acquisition of 10.64% of BES Leasing e Factoring, share capital, from which resulted a goodwill for an amount of euro 7,893 million.

NOTE 27 – INVESTMENTS IN ASSOCIATES

The financial information concerning associates is presented in the following table:

in thousands of euro

	Assets		Liabilities		Equity		Income		Profit/(Loss) for the year		Acquisition cost	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
BES VIDA	8,066,515	7,699,814	7,853,653	7,600,312	212,862	99,502	661,237	1,103,970	41,511	278	474,997	474,997
ES VÉNÉTIE	1,299,980	1,335,734	1,149,362	1,185,707	150,618	150,027	59,545	98,142	4,049	10,250	42,293	42,293
LOCARENT	323,156	320,322	316,734	314,543	6,422	5,779	100,896	94,542	1,200	1,222	2 967	2,517
BES SEGUROS	127,345	115,515	99,903	92,532	27,442	22,983	63,782	64,516	5,540	3,608	3,749	3,749
ESEGUR	50,321	42,419	39,758	29,788	10,563	12,631	60,888	64,482	1,800	3,640	9,634	9,634
EUROP ASSISTANCE	41,694	32,072	31,549	23,255	10,145	8,817	32,252	26,432	1,881	1,215	1,147	1,147
FUNDO ES IBERIA	24,109	23,939	2,235	790	21,874	23,149	422	652	(1,959)	(245)	10,496	10,496
SCI GEORGES MANDEL	12,802	12,432	1,010	35	11,792	12,397	1,029	1,270	600	376	2,401	2,401
BRB INTERNACIONAL	11,081	12,350	10,418	12,203	663	147	2,058	2,105	(422)	(587)	10,034	10,033
AUTOPISTA PEROTE-XALAPA	311,049	284,861	171,882	134,217	139,167	150,644	-	-	-	-	35,056	35,056
LUSOSCUT COSTA DE PRATA	565,404	424,782	519,510	394,851	45,894	29,931	57,968	44,290	18,220	-	10,442	9,972
LUSOSCUT BEIRA LITORAL E ALTA	991,576	1,020,565	891,095	925,025	100,481	95,540	116,623	122,327	22,565	-	23,093	23,776
LUSOSCUT GRANDE PORTO	703,216	674,060	659,879	643,086	43,337	30,974	65,453	53,809	5,619	-	25,165	27,948
ASCENDI	33 553	7,952	32,053	3,023	1,500	4,929	-	-	(1,128)	(71)	2,400	2,000
EMPARK	666,468	-	533,831	-	132,637	-	15,828	-	(824)	-	61,413	-
RODI SINKS & IDEAS	43,682	49,819	26,015	33,770	17,667	16,049	16,719	14,825	902	583	1,240	1,240
Others											94,293	59,880
											810,820	**717,139**

Note: Information adjusted for consolidation purposes

in thousands of euro

	Economic interest		Book value		Share of profit of associates	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
BES VIDA [b)]	50.00%	50.00%	420,521	367,416	17,182	(37,831)
ES VÉNÉTIE	42.69%	42.69%	64,439	64,187	1,728	4,609
LOCARENT	50.00%	45.00%	3,521	2,722	544	724
BES SEGUROS	25.00%	25.00%	6,858	5,743	1,385	1,001
ESEGUR	44.00%	44.00%	11,491	12,402	792	2,209
EUROP ASSISTANCE	23.00%	23.00%	2,333	2,028	433	364
FUNDO ES IBERIA	38.69%	38.69%	8,799	9,342	(366)	(519)
SCI GEORGES MANDEL	22.50%	22.50%	2,653	2,789	135	117
BRB INTERNACIONAL	24.93%	24.93%	157	37	(505)	(349)
AUTOPISTA PEROTE-XALAPA [a)]	8.19%	8.19%	27,834	30,154	-	-
LUSOSCUT COSTA DE PRATA [a)]	9.17%	9.17%	22,210	18,714	3,513	554
LUSOSCUT BEIRA LITORAL E ALTA [a)]	9.17%	9.17%	45,497	43,909	3,658	1,290
LUSOSCUT GRANDE PORTO [a)]	9.17%	9.17%	21,062	23,788	21	87
ASCENDI [a)]	16.38%	16.38%	1,000	1,972	(1,371)	(28)
EMPARK [a)]	11.77%	-	61,424	-	-	-
RODI SINKS & IDEAS	25.29%	25.29%	6,096	5,773	323	213
Others			87,920	53,530	2,505	7,269
			793,815	**644,506**	**29,977**	**(20,290)**

a) Although the Group economic interest is less than 20%, these companies were accounted for following the equity method as the Group exercises a significant influence over them.
b) Includes goodwill in the amount of euro 267,440 thousands of euro and value-in-force in the amount of euro 46,651 thousands (31 December 2008: euro 50,225 thousands).

The movement occurred in this balance is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Balance at the beginning of the year	**644,506**	**573,700**
Disposals	(5,149)	(4,460)
Acquisitions (see Note 1)	98,828	136,452
Share of profit of associates	29,977	(20,290)
Fair value reserve from investments in associates [a)]	36,659	(29,616)
Dividends received	(3,749)	(28,588)
Exchange differences and other [b)]	(7,257)	17,308
Balance at the end of the year	**793,815**	**644,506**

(a) Change in fair value reserves from BES Vida.
(b) In 2008 corresponds mainly to the consolidation movements of Lusoscut Beira Litoral, Lusoscut Grande Porto and Lusoscut Costa de Prata and Perote-Xalapa.

NOTE 28 – OTHER ASSETS

As at 31 December 2009 and 2008, the balance other assets is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Debtors		
Deposits placed with options contracts	258,096	314,414
Deposits placed with futures contracts	68,087	148,964
Recoverable government subsidies on mortgage loans	34,328	43,046
Collateral deposits placed	479,089	359,237
Loans to companies in which the Group has a minority interest	128,903	133,398
Public sector	84,419	51,526
Sundry debtors	253,829	278,952
	1,306,751	**1,329,537**
Impairment losses on debtor	(18,733)	(16,948)
	1,288,018	**1,312,589**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	12,927	13,505
Other assets	70,866	81,408
	83,793	**94,913**
Accrued income	**66,257**	**54,959**
Prepayments and deferred costs	**102,326**	**139,383**
Other sundry assets		
Foreign exchange transactions pending settlement	161,309	166,021
Stock exchange transactions pending settlement	291,991	107,512
Other transactions pending settlement	414,633	160,098
	867,933	**433,631**
Assets recognised on pensions (see Note 12)	**912,141**	**962,925**
	3,320,468	**2,998,400**

Loans to companies in which the Group has a minority interest include the amount of euro 111,500 thousands related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2008: euro 118,500 thousands related with loans).

As at 31 December 2009, the balance prepayments and deferred costs includes the amount of euro 65,613 thousands (31 December 2008: euro 106,104 thousands) related to the difference between the nominal amount of loans granted to Group's employees under the collective labour agreement for the banking sector (ACT) and their respective fair value at grant date, calculated in accordance with IAS 39. This amount is charged to the income statement over the lower period between the remaining maturity of the loan granted, and the estimated remaining service life of the employee.

The stock exchange transactions pending settlement refer to transactions with securities on behalf of third parties, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.6.

The movements occurred in impairment losses are presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Balance at the beginning of the year	**16,948**	**13,537**
Charge for the year	8,196	5,367
Charge off	(3,474)	(319)
Write back for the year	(2,276)	(2,746)
Other	(661)	1,109
Balance at the end of the year	**18,733**	**16,948**

NOTE 29 – DEPOSITS FROM CENTRAL BANKS

The balance deposits from central banks is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
From the European System of Central Banks		
Inter-bank Money Market	-	100,000
Deposits	5,438	40,505
Other funds	2,000,000	1,300,000
	2,005,438	1,440,505
From other Central Banks		
Deposits	1,373,076	3,369,953
Repurchase agreements	439,129	-
	1,812,205	3,369,953
	3,817,643	4,810,458

As at 31 December 2009 and 2008, Other funds from the European System of Central Banks in the amount of euro 2,000 millions and euro 1,300 millions, respectively, are covered by securities from the available-for-sale portfolio pledged as collaterals (see Note 39).

As at 31 December 2009, the balance Deposits from other Central Banks – Deposits includes the amount of euro 1,083 millions related to deposits with Angola Central Bank (31 December 2008: euro 3,359 millions).

As at 31 December 2009 and 2008, the analysis of deposits from Central Banks by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	1,812,365	4,283,333
3 to 12 months	2,005,278	527,125
	3,817,643	4,810,458

NOTE 30 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Domestic		
Inter-bank money market	20,640	46,314
Deposits	180,660	1,165,898
Very short term funds	103,987	73,112
Other funds	2,561	2,757
	307,848	1,288,081
International		
Deposits	3,802,460	3,328,035
Loans	1,814,972	1,645,745
Very short term funds	427,877	694,520
Repurchase agreements	333,489	433,247
Other funds	209,074	292,110
	6,587,872	6,393,657
	6,895,720	7,681,738

As at 31 December 2009, this balance includes the amount of euro 101,598 thousands (31 December 2008: 1,670,084 thousands) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2009 and 2008 the analysis of deposits from banks by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	4,747,223	4,165,934
3 to 12 months	310,536	1,080,970
1 to 5 years	1,091,938	2,075,172
More than 5 years	746,023	359,662
	6,895,720	7,681,738

NOTE 31 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Repayable on demand		
Demand deposits	7,387,751	8,874,132
Time deposits		
Time deposits	14,724,529	13,383,655
Other	109,614	14,753
	14,834,143	13,398,408
Savings accounts		
Pensioners	57,381	83,536
Other	1,826,196	1,616,750
	1,883,577	1,700,286
Other funds		
Repurchase agreements	785,275	1,820,566
Other	555,704	593,362
	1,340,979	2,413,928
	25,446,450	26,386,754

This balance includes the amount of euro 1,437,369 thousands (31 December 2008: euro 122,630 thousands) of deposits recognised in the balance sheet at fair value through profit or loss (see Note 23).

The analysis of the amounts due to customers by the period to maturity is as follows:

in thousands of euro

	31.12.2009	31.12.2008
Repayable on demand	**7,387,751**	**8,874,132**
With agreed maturity		
Up to 3 months	12,146,742	11,964,393
3 to 12 months	3,969,939	4,028,676
1 to 5 years	1,819,118	463,960
More than 5 years	122,900	1,055,593
	18,058,699	**17,512,622**
	25,446,450	**26,386,754**

NOTE 32 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Euro Medium Term Notes [a)]	11,875,102	10,130,109
Certificates of deposit	9,277,165	3,522,854
Bonds [b)]	6,203,876	5,563,026
Covered bonds	3,649,359	2,663,350
Other	2,095,597	2,717,343
	33,101,099	**24,596,682**

a) As at 31 December 2008, the caption EMTN includes the amount of euro 179.9 millions of Extendible Notes.
b) As at 31 December 2009, includes the amount of euro 1,564.9 millions of deposits guaranteed by the Portuguese Republic.

The fair value of the debts securities issued is presented in Note 43.

This balance includes the amount of euro 8,254,205 thousands (31 December 2008: euro 1,722,827 thousands) related with debt securities issued recorded in the balance sheet at fair value through profit or loss (see Note 23).

During the years ended 31 December 2009 and 2008, BES Group issued covered bonds in the amount of euro 1,000 millions and euro 2,500 millions, respectively, under the Covered Bonds Programme, which has a maximum amount of euro 10,000 millions.

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 13/2006 of the Bank of Portugal.

The main characteristics of these issues are as follows:

Description	Nominal value (in thousands of euro)	Book value (in thousands of euro)	Issue date	Maturity date	Interest payment	Interest rate	Rating
BES Covered Bonds 25/01/2011	1,250,000	1,340,227	25/1/08	25/1/11	Annually	4.375%	AAA
BES Covered Bonds 21/07/2010	1,250,000	1,308,880	21/7/08	21/7/10	Annually	5.50%	AAA
BES Covered Bonds 3.375%	1,000,000	1,000,252	17/11/09	17/2/15	Annually	3.375%	AAA

As at 31 December 2009, the mortgage loans that collateralise these covered bonds amounted to euro 4,053,833 thousands (31 December 2008: euro 2,722,664 thousands) (see Note 21).

The changes occurred in debt securities issued during the year ended 31 December 2009 are analysed as follows:

in thousands of euro

	31.12.2008	Issues	Repayments	Net repurchase	Other movements a)	31.12.2009
Euro Medium Term Notes	10,130,109	4,858,747	(2,895,516)	(344,193)	125,955	11,875,102
Certificates of deposit	3,522,854	5,783,797 b)	-	(52,040)	22,554	9,277,165
Bonds	5,563,026	1,657,990	(724,451)	(186,859)	(105,830)	6,203,876
Covered bonds	2,663,350	1,000,000	-	-	(13,991)	3,649,359
Other	2,717,343	3,484,561	(4,081,310)	(9,297)	(15,700)	2,095,597
	24,596,682	16,785,095	(7,701,277)	(592,389)	12,988	33,101,099

a) Other include accrued interest, fair value hedge and fair value adjustments and foreign translation exchanges adjustments.
b) Certificates of deposit are presented at their net value, considering its short term maturity.

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

The analysis of debt securities issued by the period to maturity is presented as follows:

in thousands of euro

	31.12.2009	31.12.2008
Up to 3 months	10,133,346	5,245,217
3 to 12 months	5,121,041	3,161,303
1 to 5 years	13,266,840	11,700,981
More than 5 years	4,579,872	4,489,181
	33,101,099	24,596,682

The main characteristics of debt securities issued are presented as follows:

in thousands of euro

				31.12.2009			
Issuer	**Designation**		**Currency**	**Issue date**	**Book value**	**Maturity**	**Interest rate**
BES	BESLEAS.IMOB.00		EUR	2000	1,020	2010	6 Months Euribor + 0.67%
BES	BES Euro Renda		EUR	2002	22,515	2010	Fixed rate - 5.39%
BES	BEF 2004/2014		EUR	2004	54,691	2014	6 Months Euribor + 0.75%
BES	BEF 2005/2010		EUR	2005	12,637	2010	6 Months Euribor + 0.70%
BES	BEF 2005/2011		EUR	2005	2,410	2011	3 Months Euribor + 0.715%
BES	BIC SNOWBL ABR0		EUR	2005	10,941	2012	6 Months Euribor
BES	BEF 2005/2012		EUR	2005	39,571	2012	3 Months Euribor + 0.73%
BES	BIC E.RENDA 4%	a)	EUR	2005	2,921	2013	Fixed rate 4.15% on 1st.2nd and 8th years + swap rate from 3rd to 7th years
BES	BES-E.RENDA 4%	a)	EUR	2005	8,346	2013	Fixed rate 4.15% on 1st.2nd and 8th years + swap rate from 3rd to 7th years
BES	BES ER 4% ABR05	a)	EUR	2005	2,542	2013	Fixed rate 4.08% on 1st.2nd and 8th years + swap rate from 3rd to 7th years
BES	BES ER 4% ABR05	a)	EUR	2005	1,913	2013	Fixed rate 4.14% on 1st.2nd and 8th years + swap rate from 3rd to 7th years
BES	BES ER3,75%0805	a)	EUR	2005	2,587	2013	Fixed rate 3.85% on 1st.2nd and 8th years + swap rate from 3rd to 7th years
BES	BES COMMODIT 7%	a)	EUR	2005	1,864	2014	Fixed rate - 7.00%
BES	Certificate deposit		EUR	2007	51,874	2010	0.19% - 3%
BES	Certificate deposit		USD	2007	22,613	2010	0.10% - 0.60%
BES	BES JAPAO FEV07	a)	EUR	2007	3,320	2010	Nikkei 225
BES	BES DUE 2010		EUR	2007	400,113	2010	3 Months Euribor + 0.09%
BES	BES 4,125% 2010		EUR	2007	51,970	2010	Fixed rate - 4.125%
BES	BES BRIC MAR.07	a)	EUR	2007	7,423	2010	S&P BRIC 40 EUR Price Return
BES	BES DUE MAIO 10		EUR	2007	500,412	2010	3 Months Euribor + 0.07%
BES	BES EN.ALT.2010	a)	EUR	2007	4,893	2010	DAX Global Alternative Energy EUR Price Return
BES	BES DUE 2012		EUR	2007	1,000,536	2012	3 Months Euribor + 0.10%
BES	BES DUE 2013		EUR	2007	499,926	2013	3 Months Euribor + 0.125%
BES	BES DUE JUN 14		EUR	2007	495,496	2014	3 Months Euribor + 0.15%
BES	BES BENS AGRIC.	a)	EUR	2008	2,871	2010	Indexed to Commodities
BES	BES OP. FEV.08	a)	EUR	2008	846	2010	Indexed to Dow Jones Euro Stoxx 50 Index
BES	BES OP. MAR.08	a)	EUR	2008	1,364	2010	Indexed to Dow Jones Euro Stoxx 50 Index
BES	BES DUE MAIO 10		EUR	2008	1,222,163	2010	3 Months Euribor + 0.80%
BES	BES COMM.MAI.08	a)	EUR	2008	2,852	2010	Indexed to Commodities
BES	BEF June2008/June2010		EUR	2008	1,500	2010	Fixed rate 6.047 %
BES	BES COMM.JUN.08	a)	EUR	2008	803	2010	Indexed to Commodities
BES	BES 21/07/2010 (covered bonds)		EUR	2008	1,308,880	2010	Fixed rate 5.5%
BES	BEF June2008/December2010		EUR	2008	5,002	2010	Fixed rate 6.047 %
BES	BES 25/01/2011 (covered bonds)		EUR	2008	1,340,227	2011	Fixed rate 4.38%
BES	BEF 07_2008//07_2011		EUR	2008	44,940	2011	Fixed rate 6.138%
BES	BES DUE 2033 0		EUR	2008	5	2033	Zero Coupon
BES	BES DUE 2034 0		EUR	2008	5	2034	Zero Coupon
BES	BES DUE 2035 0		EUR	2008	2	2035	Zero Coupon
BES	BES DUE 2036 0		EUR	2008	22,766	2036	Zero Coupon
BES	BES DUE 2037 0		EUR	2008	21,593	2037	Zero Coupon
BES	BES DUE 2038 0		EUR	2008	20,510	2038	Zero Coupon
BES (Cayman branch)	BIC CAYMAN 10 2001		EUR	2001	52,010	2010	Fixed rate - 5.53%
BES (Cayman branch)	BIC CAYMAN 11 2001		EUR	2001	51,978	2010	Fixed rate - 5.57%
BES (Cayman branch)	BIC CAYMAN 12 2001		EUR	2001	51,959	2010	Fixed rate - 5.58%
BES (Cayman branch)	BIC CAYMAN 13 2001		EUR	2001	51,980	2010	Fixed rate - 5.73%
BES (Cayman branch)	BIC CAYMAN 2 2001		EUR	2001	52,533	2011	Fixed rate - 5.68%
BES (Cayman branch)	BIC CAYMAN 14 2001		EUR	2001	51,941	2011	Fixed rate - 5.80%
BES (Cayman branch)	BIC CAYMAN 15 2001		EUR	2001	53,677	2011	Fixed rate - 5.79%
BES (Cayman branch)	BIC CAYMAN 16 2001		EUR	2001	53,684	2011	Fixed rate - 5.90%
BES (Cayman branch)	BES CAYMAN 5,22%		USD	2001	37,255	2011	Fixed rate - 5.22%
BES (Cayman branch)	BES CAYMAN 5,22%		USD	2001	37,263	2011	Fixed rate - 5.22%
BES (Cayman branch)	BIC CAYMAN 29 2001		EUR	2001	52,440	2011	Fixed rate - 5.28%
BES (Cayman branch)	BIC CAYMAN 30 2001		EUR	2001	50,377	2011	Fixed rate - 5.42%
BES (Cayman branch)	BIC CAYMAN 17 2001		EUR	2001	54,413	2012	Fixed rate - 5.89%
BES (Cayman branch)	BIC CAYMAN 18 2001		EUR	2001	51,833	2012	Fixed rate - 5.83%
BES (Cayman branch)	BIC CAYMAN 19 2001		EUR	2001	51,850	2012	Fixed rate - 5.96%
BES (Cayman branch)	BIC CAYMAN 20 2001		EUR	2001	51,810	2012	Fixed rate - 5.94%
BES (Cayman branch)	BIC CAYMAN 21 2001		EUR	2001	51,759	2013	Fixed rate - 6.03%
BES (Cayman branch)	BIC CAYMAN 22 2001		EUR	2001	77,633	2013	Fixed rate - 6.08%

in thousands of euro

			31.12.2009				
Issuer	**Designation**		**Currency**	**Issue date**	**Book value**	**Maturity**	**Interest rate**
BES (Cayman branch)	BIC CAYMAN 23 2001		EUR	2001	82,259	2013	Fixed rate - 6.03%
BES (Cayman branch)	BIC CAYMAN 24 2001		EUR	2001	77,198	2014	Fixed rate - 6.01%
BES (Cayman branch)	BIC CAYMAN 25 2001		EUR	2001	82,358	2014	Fixed rate - 6.02%
BES (Cayman branch)	BIC CAYMAN 26 2001		EUR	2001	76,993	2015	Fixed rate - 6.16%
BES (Cayman branch)	BIC CAYMAN 27 2001		EUR	2001	82,670	2015	Fixed rate - 6.09%
BES (Cayman branch)	BIC CAYMAN 1 2002		EUR	2002	56,870	2012	Fixed rate - 5.92%
BES (Cayman branch)	BIC CAYMAN 2 2002		EUR	2002	6,313	2012	Fixed rate - 4.65%
BES (Cayman branch)	BES CAYMAN - Cupão Zero		EUR	2002	51,159	2027	Zero Coupon - Effective rate 5.90%
BES (Cayman branch)	BES CAYMAN - Cupão Zero		EUR	2002	130,154	2027	Zero Coupon - Effective rate 5.74%
BES (Cayman branch)	BES CAYMAN Step Up 07/28/10		USD	2003	53,436	2010	StepUp (1st coupon 3.50%)
BES (Cayman branch)	BES CAYMAN 4,82% 01/28/13		USD	2003	59,048	2013	Fixed rate - 4.82%
BES (Cayman branch)	BES CAYMAN 4,83% 02/05/13		USD	2003	59,186	2013	Fixed rate - 4.83%
BES (Cayman branch)	BES CAYMAN Step Up 07/15/13		USD	2003	53,685	2013	StepUp (1st coupon 1.25%)
BES (Cayman branch)	BES CAYMAN Step Up 07/25/13		USD	2003	53,604	2013	StepUp (1st coupon 1.50%)
BES (Cayman branch)	BES CAYMAN Step Up 08/27/13		EUR	2003	83,198	2013	StepUp (1st coupon 3.00%)
BES (Cayman branch)	BES CAYMAN Step Up 09/02/13		EUR	2003	83,620	2013	StepUp (1st coupon 3.00%)
BES (Cayman branch)	BES CAYMAN Step Up 09/16/13		EUR	2003	76,382	2013	StepUp (1st coupon 2.90%)
BES (Cayman branch)	BES CAYMAN Step Up 10/07/13		EUR	2003	82,927	2013	StepUp (1st coupon 3.10%)
BES (Cayman branch)	BES CAYMAN - FIXED NOTE		EUR	2003	24,754	2013	Fixed Note
BES (Cayman branch)	BES CAYMAN 5,06% 02/11/15		USD	2003	58,969	2015	Fixed rate - 5.06%
BES (Cayman branch)	BES CAYMAN 5,01% 02/18/15		USD	2003	58,915	2015	Fixed rate - 5.01%
BES (Cayman branch)	BES CAYMAN 5,37% 03/12/18		USD	2003	60,644	2018	Fixed rate - 5.37%
BES (Cayman branch)	BES CAYMAN ZC 02/18/2028		EUR	2003	77,793	2028	Zero Coupon - Effective rate 5.50%
BES (Cayman branch)	BES CAYMAN - Cupão Zero		EUR	2003	14,500	2028	Zero Coupon - Effective rate 5.75%
BES (Cayman branch)	BES CAYMAN - Cupão Zero		EUR	2003	54,826	2028	Zero Coupon - Effective rate 5.81%
BES (Cayman branch)	BES CAYMAN - FIXED NOTE		EUR	2004	12,602	2014	Fixed Note
BES (Cayman branch)	BES CAYMAN - FIXED NOTE		EUR	2004	31,103	2014	Fixed Note
BES (Cayman branch)	BES CAYMAN - FIXED NOTE		EUR	2004	7,454	2014	Fixed Note
BES (Cayman branch)	BES CAYMAN - FIXED NOTE		EUR	2004	6,211	2014	Fixed Note
BES (Cayman branch)	BES CAYMAN Step Up 07/21/14		USD	2004	53,442	2014	StepUp (1st coupon 2.07%)
BES (Cayman branch)	BES CAYMAN Step Up 02/02/17		USD	2004	36,817	2017	StepUp (1st coupon 1.87%)
BES (Cayman branch)	BES CAYMAN Step Up 02/11/19		USD	2004	36,804	2019	StepUp (1st coupon 1.78%)
BES (Cayman branch)	BES CAYMAN ZC 28/03/2033		EUR	2008	32,149	2033	Zero Coupon - Effective rate 5.69%
BES (Spain branch)	Covered Bonds		EUR	2008	153,769	2014	Fixed rate 4.5%
BES (Spain branch)	Covered Bonds		EUR	2008	80,368	2014	Fixed rate 4%
BES (Spain branch)	Covered Bonds	a)	EUR	2008	83,397	2016	Fixed rate 4.25%
BES (London branch)	Certificate deposit	a)	EUR	2008	3,754,461	2010	4.13% - 4.87%
BES (London branch)	Certificate deposit	a)	GBP	2008	826,706	2010	5.51% - 6.72%
BES (London branch)	Certificate deposit	a)	USD	2008	2,565,008	2010	4.79% - 5.47%
BES (London branch)	Certificate deposit	a)	CHF	2008	210,299	2010	7.35%
BES (New York branch)	Certificate deposit		USD	2007	621,235	2010	4.41% - 5.53%
BES Açores	BES AÇOR.DEZ.08		EUR	2008	8	2011	3 Months Euribor + 1.25%
BES Finance	EMTN 30		EUR	2004	290,383	2011	3 Months Euribor + 0.20%
BES Finance	EMTN 37		EUR	2004	25,818	2029	Zero Coupon - Effective rate 5.30%
BES Finance	EMTN 41		EUR	2005	500,641	2010	3 Months Euribor + 0.15%
BES Finance	EMTN 44		EUR	2005	299,448	2010	3 Months Euribor + 0.13%
BES Finance	EMTN 39		EUR	2005	100,199	2015	3 Months Euribor + 0.23%
BES Finance	EMTN 40	a)	EUR	2005	180,261	2035	b)
BES Finance	EMTN 48		EUR	2006	747,760	2011	3 Months Euribor + 0.12%
BES Finance	EMTN 49	a)	GBP	2006	67,949	2011	3 Months Libor + 0.072%
BES Finance	EMTN 51		CZK	2006	19,869	2011	Fixed rate - 3.65%
BES Finance	EMTN 53		EUR	2006	496,898	2011	3 Months Euribor + 0.15%
BES Finance	Exchangeable Bonds		USD	2008	623,453	2011	c)
BESI	BESI CAIXA BEST ACCOES EUROPA 4%	a)	EUR	2005	1,559	2010	d)
BESI	BESI MULTIESTRATEGIA MAR2010	a)	EUR	2005	2,420	2010	e)
BESI	BESI OBRIG BULL&BEAR JUN10	a)	EUR	2005	1,559	2010	Indexed to DJ Eurostoxx 50
BESI	BESI CX RANGE ACCR AND FX NOV11		EUR	2005	4,032	2011	f)
BESI	BESI OBRIG RENDIMENT 20% MAY2015		EUR	2005	2,428	2015	Fixed rate 5% + Indexed to CMS
BESI	BESI CAIXA 6.15% NIKKEI JAN2011	a)	EUR	2006	1,890	2011	Indexed to Nikkei 225
BESI	BESI OB CX RENDIM STEP UP APR14		EUR	2006	3,841	2014	Growing fixed rate
BESI	Certificate deposit						
	(BESI CERT DUALREND+EUSTOXX AUG14)	a)	EUR	2006	2,997	2014	Fixed rate 6.6743% + Indexed to DJ Eurostoxx 50
BESI	BESI OBCX R.ACCRUAL TARN MAR2016		EUR	2006	910	2016	Fixed rate 6% + Range Accrual
BESI	Certificate deposit (1-CDB PRE P)		BRL	2009	5,101	2010	Indexed to CDI ao
BESI	Certificate deposit (9-CDB SNA P)		BRL	2009	164,626	de 2010 a 2015	Indexed to CDI ao)
BESI	Certificate deposit (90-CDB A)		BRL	2009	518,318	de 2010 a 2015	Indexed to CDI ao)

in thousands of euro

31.12.2009							
Issuer	**Designation**		**Currency**	**Issue date**	**Book value**	**Maturity**	**Interest rate**
BESI	Certificate deposit (19-CDB POS P)		BRL	2009	3,257	2015	Fixed rate 1.30%
BESI	Certificate deposit (29-CDI FLUT P)		BRL	2009	267,490	2010	Indexed to CDI ao)
ES Investment Plc	ESIP JAN01/JAN11 CRDLKD US 11.85	a)	USD	2001	1,308	2011	Fixed rate 5% + Indexed to credit event
ES Investment Plc	ESIP JUL03/JUL11 LINKED CMS	a)	EUR	2003	13,509	2011	Fixed rate + Indexed to CMS+CLN
ES Investment Plc	ESIP NOV2011 CMS LINKED EUR 5M		EUR	2003	5,331	2011	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP DEC2011 CMS LINKED EUR 6.5M		EUR	2003	6,787	2011	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP JUL2012 CMS LINKED EUR 5.5M		EUR	2004	6,149	2012	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP CMS LINKED NOV2014		EUR	2004	3,372	2014	Fixed rate 6% + Indexed to CMS
ES Investment Plc	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	6,678	2024	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP AMORTIZING MAY2010 ESTOXX50	a)	EUR	2005	1,165	2010	Indexed too DJ Eurostoxx 50
ES Investment Plc	ESIP RANGE ACCRUAL AND FX NOV11		EUR	2005	435	2011	f)
ES Investment Plc	ESIP RANGE ACCRUAL AUG2013		EUR	2005	4,821	2013	Fixed rate 4.75% + Range accrual
ES Investment Plc	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	1,803	2015	Range accrual
ES Investment Plc	ESIP BESLEAS&INFLAT LINK MAY15	a)	EUR	2005	8,209	2015	Indexed to HIPC Ex-Tobacco + g)
ES Investment Plc	ESIP RANGE ACCRUAL JUN15		EUR	2005	206	2015	Range accrual
ES Investment Plc	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1,184	2015	Fixed rate + Snowball h)
ES Investment Plc	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	4,482	2015	Fixed rate + Snowball h)
ES Investment Plc	ESIP CALL RANGE ACCRUAL NOV2017		EUR	2005	881	2017	Range accrual
ES Investment Plc	ESIP AGO05 SEP35 CALLABLE INV FL		EUR	2005	9,740	2035	12 months Euribor + i)
ES Investment Plc	ESIP 30CMS-2CMS LKD NOTE NOV2036		EUR	2005	13,403	2036	Fixed rate 7.44% + Indexed to CMS
ES Investment Plc	ESIP PORTUGAL TELECOM FIN LINKED	a)	EUR	2006	8,775	2012	g)
ES Investment Plc	ESIP EUR12M+16 BP APR2016		EUR	2006	4,050	2016	12M Euribor
ES Investment Plc	ESIP RANGE ACCRUAL USD NOV2021		USD	2006	5,803	2021	Range accrual
ES Investment Plc	ESIP USD RANGE ACCRUAL NOV2021		USD	2006	3,348	2021	Range accrual
ES Investment Plc	ESIP AUG2011 BASKET LINKED	a)	EUR	2007	3,457	2011	ai)
ES Investment Plc	ESIP JAN2010 INDEX BASKET LKD	a)	EUR	2007	864	2010	j)
ES Investment Plc	ESIP JUL2010 EQUITY BASKET LKD	a)	EUR	2007	676	2010	k)
ES Investment Plc	ESIP DEC2010 CLIQUET MSCI BRAZIL	a)	USD	2007	1,442	2010	Indexed to MSCI Brazil
ES Investment Plc	ESIP CIMPOR FIN CRD LKD MAY2011	a)	EUR	2007	14,153	2011	g)
ES Investment Plc	ESIP JUN2011 INDEX BASKET LKD	a)	EUR	2007	310	2011	l)
ES Investment Plc	ESIP JUN2011 INDEX BASKET LINKED	a)	EUR	2007	104	2011	m)
ES Investment Plc	ESIP DEC2011 BBVA POP LINKED	a)	EUR	2007	1,911	2011	Indexed to BBVA and Banco Popular
ES Investment Plc	ESIP FEB2012 DEUTSCHE BANK LKD	a)	EUR	2007	3,588	2012	Indexed to Deutsche Telecom
ES Investment Plc	ESIP JUN2012 BASKET LINKED	a)	EUR	2007	763	2012	n)
ES Investment Plc	ESIP JUL2012 LUSITANO BSK LINKED	a)	EUR	2007	4,490	2012	am)
ES Investment Plc	ESIP EURTRY LINKED OCT2012	a)	EUR	2007	3,292	2012	Indexed to FX
ES Investment Plc	ESIP METAL INVESTMENT OCT2012	a)	EUR	2007	480	2012	Commodity Linked
ES Investment Plc	ESIP MAY14 EQUITY BASKT LINKED	a)	USD	2007	2,678	2014	p)
ES Investment Plc	ESIP BCP FIN CRD LKD DEC2015	a)	EUR	200	4,566	2015	g)
ES Investment Plc	ESIP DEC2015 BASKET LINKED	a)	EUR	2007	200	2015	aj)
ES Investment Plc	ESIP JAN2017 INDEX BASKET LKD	a)	EUR	2007	6,086	2017	j)
ES Investment Plc	ESIP CMS LINKED JUN2019	a)	EUR	2007	23,434	2019	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP FEB2010 ESTOXX50 LINKED	a)	EUR	2008	680	2010	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP MAR2010 WRC BZ SHARE LKD	a)	EUR	2008	759	2010	q)
ES Investment Plc	ESIP APR10 INDX BASQ LINQ 80%	a)	EUR	2008	1,274	2010	r)
ES Investment Plc	ESIP APR10 INDX BASQ LINQ 90%	a)	EUR	2008	4,682	2010	r)
ES Investment Plc	ESIP APR11 INDX BASQ LKD 80% II	a)	EUR	2008	3,329	2010	r)
ES Investment Plc	ESIP MAY2010 SAN IBE LINKED	a)	EUR	2008	1,994	2010	Indexed to BSCH and Iberdrola
ES Investment Plc	ESIP FX EURUSD LINKED JUL2010	a)	USD	2008	734	2010	Indexed to FX
ES Investment Plc	ESIP JAN2011 LUXURY GOODS	a)	EUR	2008	3,929	2011	s)
ES Investment Plc	ESIP JAN2011 BRASIL+INDIA II BSK	a)	EUR	2008	3,024	2011	Indexed to MSCI Brazil and India
ES Investment Plc	ESIP JAN2011 BASKET LINKED	a)	EUR	2008	5,896	2011	j)
ES Investment Plc	ESIP JAN2011 BRASIL+INDIA BASKET	a)	EUR	2008	3,194	2011	Indexed to MSCI Brazil and India
ES Investment Plc	ESIP JAN2011 CLIQUET MSCI BRAZIL	a)	EUR	2008	2,453	2011	Indexed to MSCI Brazil
ES Investment Plc	ESIP MAR2011 EURUSD FX LINKED	a)	EUR	2008	1,753	2011	Indexed to FX
ES Investment Plc	ESIP MAR2011 BASKET LINKED	a)	EUR	2008	7,554	2011	j)
ES Investment Plc	ESIP MAY2011 AGRICULTURE LINKED	a)	EUR	2008	1,534	2011	Indexed to DBLCI-OY Agriculture
ES Investment Plc	ESIP MAY2011 INDEX BASKET LINKED	a)	EUR	2008	2,913	2011	t)
ES Investment Plc	ESIP JUN2011 SAN TEF LINKED	a)	EUR	2008	1,632	2011	Indexed to Telefonica and BSCH
ES Investment Plc	ESIP FTD CRD LINKED JUN2011	a)	EUR	2008	9,170	2011	u)
ES Investment Plc	ESIP AUG2011 INDEX BSKT LINK	a)	EUR	2008	2,944	2011	j)
ES Investment Plc	ESIP AUG2011 EQL BSKT LINK	a)	USD	2008	704	2011	Indexed to BBVA. Iberdrola and Telefonica
ES Investment Plc	ESIP AUG2011 INDEX BSKT LINKED	a)	EUR	2008	3,711	2011	Indexed to French inflation and to DJ Eurostoxx 50
ES Investment Plc	ESIP SEP2011 INDEX BASKET LKD	a)	EUR	2008	2,863	2011	v)
ES Investment Plc	ESIP SEP2010 INDEX BASKET LKD	a)	EUR	2008	754	2011	w)

in thousands of euro

Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
				31.12.2009			
ES Investment Plc	ESIP NOV2011 SX5E LINKED	a)	EUR	2008	1,746	2011	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP JAN2012 BASKET LINKED	a)	EUR	2008	3,807	2012	x)
ES Investment Plc	ESIP JAN2012 EQUITY BASKET LINKED	a)	EUR	2008	1,365	2012	y)
ES Investment Plc	ESIP APR2013 EURTRY LKD	a)	EUR	2008	7,924	2013	Indexed to FX
ES Investment Plc	ESIP APR2013 AEGON SHARE LKD	a)	EUR	2008	2,557	2013	Indexed to AEGON
ES Investment Plc	ESIP JUN2013 CARBON NOTES	a)	EUR	2008	4,731	2013	an)
ES Investment Plc	ESIP OCT13 EURBRL LINKED BRL	a)	EUR	2008	1,927	2013	Indexed to FX
ES Investment Plc	ESIP BARCLAYS LKD ZC MAR2016	a)	EUR	2008	2,165	2016	ZC + g)
ES Investment Plc	ESIP BARCLAYS LKD 6.30% MAR2016	a)	EUR	2008	4,923	2016	Fixed rate 6.30% + g)
ES Investment Plc	ESIP BARCLAYS LKD EUR3M MAR2016	a)	EUR	2008	1,380	2016	Euribor 3M + 2.20% + g
ES Investment Plc	ESIP FEB2010 EQL LINKED	a)	EUR	2008	5,756	2010	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP MAY2021 BBVA LINKED	a)	EUR	2008	7,543	2021	Indexed to BBVA
ES Investment Plc	ESIP AUG2012 EQL LINKED	a)	EUR	2008	11,745	2012	Indexed to BBVA
ES Investment Plc	ESIP DEC12 ENI LINKED	a)	EUR	2008	1,020	2012	Indexed to ENI
ES Investment Plc	ESIP DEC12 ENI LINKED 2	a)	EUR	2008	4,121	2012	Indexed to ENI
ES Investment Plc	ESIP MAY2012 EQL LINKED	a)	EUR	2008	9,018	2012	Indexed to BSC
BESIL	BESIL STEP UP 09/02/13		EUR	2003	25,541	2013	Fixed rate - 6.44%
BESIL	BESIL STEP UP 08/27/13		EUR	2003	25,529	2013	Fixed rate - 6%
BESIL	BESIL STEP UP 09/16/13		EUR	2003	25,479	2013	Fixed rate - 6.44%
BESIL	BESIL STEP UP 10/07/13		EUR	2003	25,385	2013	Fixed rate - 6.44%
BESIL	BESIL STEP UP 07/21/14		USD	2004	17,833	2014	Fixed rate - 6.06%
BESIL	BESIL LTD 5.41% 21/07/14		USD	2004	75,411	2014	Fixed rate - 5.41%
BESIL	BESIL STEP UP 02/02/17		USD	2004	18,449	2017	Fixed rate - 6.82%
BESIL	BESIL LTD 5.515% 02/02/17		USD	2004	60,206	2017	Fixed rate - 5.515%
BESIL	BESIL STEP UP 02/11/19		USD	2004	18,441	2019	Fixed rate - 6.92%
BESIL	BESIL LTD 5.7065% 11/02/19		USD	2004	61,002	2019	Fixed rate - 5.7065%
Lusitano SME nº 1	Class A asset backed floating rate notes		EUR	2006	744,071	2028	Euribor + 0.15%
Lusitano SME nº 1	Class B asset backed guaranteed floating rate notes		EUR	2006	41,008	2028	Euribor + 0.05%
Lusitano SME nº 1	Class C asset backed floating rate notes		EUR	2006	34,181	2028	Euribor + 2.20%
Lusitano Mortgage nº 6	Class A Mortgage Backed Floating Rate Notes		EUR	2007	691,699	2060	Euribor + 0.20%
Lusitano Mortgage nº 6	Class B Mortgage Backed Floating Rate Notes		EUR	2007	6,502	2060	Euribor + 0.30%
Lusitano Mortgage nº 6	Class C Mortgage Backed Floating Rate Notes		EUR	2007	10,006	2060	Euribor + 0.45%
BESNAC	BOA SECURITIES LLC 139		USD	2009	6,940	2010	Fixed rate - 0.60%
BESNAC	BOA SECURITIES LLC 140		USD	2009	34,703	2010	Fixed rate - 0.38%
BESNAC	BOA SECURITIES LLC 141		USD	2009	34,703	2010	Fixed rate - 0.38%
BESNAC	BOA SECURITIES LLC 142		USD	2009	34,701	2010	Fixed rate - 0.38%
BESNAC	BOA SECURITIES LLC 143		USD	2009	34,701	2010	Fixed rate - 0.38%
BESNAC	ICAP CORP 159		USD	2009	34,699	2010	Fixed rate - 0.40%
BESNAC	ICAP CORP 161		USD	2009	34,697	2010	Fixed rate - 0.40%
BESNAC	ICAP CORP 162		USD	2009	34,697	2010	Fixed rate - 0.40%
BESNAC	ICAP CORP 163		USD	2009	34,698	2010	Fixed rate - 0.40%
BESNAC	ICAP CORP 163		USD	2009	34,698	2010	Fixed rate - 0.40%
BESNAC	FIDELITY INST 164		USD	2009	122,859	2010	Fixed rate - 0.33%
BESNAC	FIMM PRIME 165		USD	2009	111,754	2010	Fixed rate - 0.33%
BESNAC	FMMT RETIREMENT M/M 166		USD	2009	32,624	2010	Fixed rate - 0.33%
BESNAC	VARIABLE INS.PROD 167		USD	2009	5,553	2010	Fixed rate - 0.33%
BESNAC	SHELL M/M 168		USD	2009	3,471	2010	Fixed rate - 0.33%
BESNAC	FIDELITY M/M C/F 169		USD	2009	1,388	2010	Fixed rate - 0.33%
BES	BES 3,75%		EUR	2009	1,564,928	2012	Fixed rate - 3.75%
BES	BES DUE 2011		EUR	2009	173,340	2011	Euribor 3M + 2%
BES	BES DUE 2012		EUR	2009	103,179	2012	Fixed rate 4.43%
BES	BES RENDIM.CR.		EUR	2009	1,774	2012	Fixed rate - 3.35%
BES	BES REND.CR.		EUR	2009	24,810	2012	Fixed rate - 3.85%
BES	BES 5,625% 2014		EUR	2009	1,794,628	2014	Fixed rate - 5.63%
BES	BES 4,427%		EUR	2009	205,665	2012	Fixed rate - 4.43%
BES	BES DUE 08/2011		EUR	2009	125,132	2011	Euribor 12M + 0.10%
BES	BES CR.OUT.09		EUR	2009	1,665	2012	ah)
BES	BES 3,375%		EUR	2009	1,000,252	2015	Fixed rate 3.375%
BES	BES DUE 02/2013		EUR	2009	988,414	2013	3 Months Euribor + 1%
BES	BES R.FIXO 1		EUR	2009	10,057	2012	Fixed rate 4.05%
BES	BES R.FIXO 2		EUR	2009	10,057	2012	Fixed rate 4.05%
BES	BES R.FIXO 3		EUR	2009	10,057	2012	Fixed rate 4.05%
BES	BES R.FIXO 4		EUR	2009	10,057	2012	Fixed rate 4.05%
BES	BES R.FIXO 5		EUR	2009	10,057	2012	Fixed rate 4.05%
BES	BES R.FIXO 6		EUR	2009	4,018	2012	Fixed rate 3.45%
BES	BES R.FIXO 7		EUR	2009	4 018	2012	Fixed rate 3.45%
BES	BES R.FIXO 8		EUR	2009	4 018	2012	Fixed rate 3.45%
BES	BES R.FIXO 9		EUR	2009	4 018	2012	Fixed rate 3.45%
BES	BES R.FIXO 10		EUR	2009	4 018	2012	Fixed rate 3.45%
BES (Madeira branch)	Certificate deposit (BESM280110)		USD	2009	118,010	2010	Fixed rate 0.33%
BES (Madeira branch)	Certificate deposit (BESM190110)		USD	2009	104,126	2010	Fixed rate 0.33%
BES Finance	EMTN 56		EUR	2009	29,840	2043	Zero Coupon
BES Finance	EMTN 57		EUR	2009	28,131	2044	Zero Coupon
BES Finance	EMTN 58		EUR	2009	26,546	2045	Zero Coupon
BES Finance	EMTN 59		EUR	2009	34,769	2042	Zero Coupon
BES Finance	EMTN 60		EUR	2009	38,854	2040	Zero Coupon

in thousands of euro

				31.12.2009			
Issuer	**Designation**		**Currency**	**Issue date**	**Book value**	**Maturity**	**Interest rate**
BES Finance	EMTN 61		EUR	2009	36,780	2041	Zero Coupon
BES Finance	EMTN 62		EUR	2009	77,443	2039	Zero Coupon
BES Finance	EMTN 63		EUR	2009	157,002	2039	Fixed rate 3%
BES Finance	EMTN 64		EUR	2009	162,658	2040	Fixed rate 3%
ES Investment Plc	ESIP JAN2012 EURBRL LINKED	a)	EUR	2009	2,301	2012	Indexed to FX
ES Investment Plc	ESIP MAR2010 ENEL LINKED	a)	EUR	2009	1,007	2010	3M Euribor + 3% + g
ES Investment Plc	ESIP SX5E LINKED MARCH2011	a)	EUR	2009	1,316	2011	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP FIXED AMOUNT + AMORT NOV22	a)	EUR	2009	3,085	2022	Fixed Amounts
ES Investment Plc	ESIP BRASIL CLN EUR3M+2% JUN2010	a)	EUR	2009	1,507	2010	3M Euribor +2% + g)
ES Investment Plc	ESIP EDP CLN EUR3M+2% MAR2011	a)	EUR	2009	1,517	2011	3M Euribor +2% + g)
ES Investment Plc	ESIP PHARMA EQL APRIL2011	a)	EUR	2009	3,199	2011	ag)
ES Investment Plc	ESIP BRAZ CLN 2 EUR3M+2% JUN2010	a)	EUR	2009	1,508	2010	3M Euribor +2% + g)
ES Investment Plc	ESIP EDP 2 CLN EUR3M+2% MAR2011	a)	EUR	2009	1,517	2011	3M Euribor +2% + g)
ES Investment Plc	ESIP LACAIXA EUR3M+2% MAR2011	a)	EUR	2009	2,815	2016	3M Euribor +2% + g)
ES Investment Plc	ESIP APR2014 5%+INDEX BASKET LKD	a)	EUR	2009	1,508	2014	Fixed rate 5% + z)
ES Investment Plc	ESIP FIXED COUPON APRIL2011	a)	EUR	2009	110,912	2011	Fixed rate 4.384%
ES Investment Plc	ESIP MAY2014 5%+INDEX BASKET LKD	a)	EUR	2009	3,166	2014	Fixed rate 5% + z)
ES Investment Plc	ESIP MAY2012 SX5E LINKED	a)	EUR	2009	1,478	2012	Indexed to DJ Eurostoxx 50
BESI	BES INVEST BRASIL 5.75% MAY2012		USD	2009	100,527	2012	Fixed rate 5.75%
BESI	BES INV BRASIL EUR6M+255 NOV2012		EUR	2009	17	2012	6M Euribor + 2.55%
BESI	BES INVEST BRASIL CD 1% FEB2010		USD	2009	17,347	2010	Fixed rate 1.0%
ES Investment Plc	ESIP JUN2013 EQL LINKED	a)	EUR	2009	429	2013	aa)
ES Investment Plc	ESIP JUN2010 EURBRL LINKED	a)	EUR	2009	1,068	2010	Indexed to Fx
ES Investment Plc	ESIP JAN2011 SP500 LINKED	a)	EUR	2009	1,008	2011	Indexed to SP500
ES Investment Plc	ESIP JUN2011 CLN LINKED	a)	EUR	2009	2,995	2011	g)
ES Investment Plc	ESIP JUL2014 INFLATION LINKED	a)	EUR	2009	1,264	2014	Indexed to inflactio
ES Investment Plc	ESIP JUL2013 EQL LINKED	a)	EUR	2009	5,503	2013	ab)
ES Investment Plc	ESIP JUN2010 SANTANDER LINKED	a)	EUR	2009	1,264	2010	Indexed to BSCH
ES Investment Plc	ESIP SEP2011 BERKSHIRE HATHAWAY	a)	EUR	2009	2,009	2011	3M Euribor + 2% + g)
ES Investment Plc	ESIP JUL2011 EQL BASKET	a)	EUR	2009	1,100	2011	ac)
ES Investment Plc	ESIP AUG2012 BESI BRASIL LINKED	a)	EUR	2009	4,796	2012	ak)
ES Investment Plc	ESIP FEB2020 EQL LINKED	a)	EUR	2009	297	2020	ad)
ES Investment Plc	ESIP SEP2010 SABADELL LINKED	a)	EUR	2009	998	2010	g)
ES Investment Plc	ESIP SEP2014 OCIDENTE EQL	a)	EUR	2009	3,710	2014	ae)
ES Investment Plc	ESIP SEP2014 OCIDENTE II EQL	a)	EUR	2009	9,149	2014	ae)
ES Investment Plc	ESIP SEP2014 ORIENTE I EQL	a)	EUR	2009	11,833	2014	af)
BESI	BESI FIXED COUPON JUL2010		EUR	2009	100,729	2010	Fixed rate 1.609%
BESI	BESI ZERO COUPON NOTE FEB2010		EUR	2009	21,959	2010	Zero Coupon
ES Investment Plc	ESIP SEP11 AUTOCALLABLE EUR12M	a)	EUR	2009	3,186	2011	Autocallable Euribor 12M
ES Investment Plc	ESIP CLN 5.45% OCT2014	a)	EUR	2009	9,984	2014	g)
ES Investment Plc	ESIP OCT2014 EQL	a)	EUR	2009	1,451	2014	Indexed to Gazprom. Nokia and DU PONT
ES Investment Plc	ESIP OCT2012 EQL LINKED	a)	EUR	2009	2,655	2012	Indexed to Brisa. EDP. Galp. BSCH and BCP
ES Investment Plc	ESIP DEC2011 FTD LINKED	a)	EUR	2009	4,842	2011	g)
ES Investment Plc	ESIP 5.25% RANGE ACCRUAL OCT2016	a)	EUR	2009	5,057	2016	Range accrual
ES Investment Plc	ESIP OCT10 CRDLINK UNIDAS 1%	a)	EUR	2009	6,536	2010	g)
ES Investment Plc	ESIP OCT10 CRDLINK UNIDAS 5.5%	a)	USD	2009	8,238	2010	g)
ES Investment Plc	ESIP CIMPOR CLN EUR3M DEC2014	a)	EUR	2009	4,146	2014	g)
BESI	BESI ZERO COUPON NOTE APR2010		EUR	2009	49,833	2010	Zero Coupon
ES Investment Plc	ESIP FTD IBERIA 5.95% DEC2014	a)	EUR	2009	14,583	2014	g)
ES Investment Plc	ESIP FTD IBERIA II 5.5% DEC2014	a)	EUR	2009	4,428	2014	g)
ES Investment Plc	ESIP USD FTD IBERIA 5.5% DEC2014	a)	USD	2009	2,846	2014	g)
ES Investment Plc	ESIP NOV2012 CLN BESIBRASIL	a)	EUR	2009	9,668	2012	g)
ES Investment Plc	ESIP NOV2012 EQL	a)	EUR	2009	2,310	2012	Indexed HSCEI + ishare MCSI Brazil Index
ES Investment Plc	ESIP DEC2011 EURUSD LINKED	a)	EUR	2009	956	2011	Indexed to FX
ES Investment Plc	ESIP DEC2012 USDBRL LINKED	a)	USD	2009	1,706	2012	Indexed to FX
ES Investment Plc	ESIP DEC2014 SX5E LINKED	a)	EUR	2009	3,025	2014	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP BRAZIL EQL LINKED	a)	EUR	2009	4,044	2014	al
ES Investment Plc	ESIP DEC2010 BCP LINKED	a)	EUR	2009	2,934	2010	Indexed to BCP
ES Investment Plc	ESIP DEC2012 EWZ+HSCEI LINKED	a)	EUR	2009	2,827	2012	Indexed to EWZ and HSCEI
BESI	BESI BRASIL CD 1.37% MAR2010		USD	2009	27,830	2010	Fixed rate 1.37%
BESI	BESI BRASIL CD 1.30% APR2010		USD	2009	6,933	2010	Fixed rate 1.30%
ESPLC	BES0610_33E BESESPLC17/06/2010		EUR	2009	14,938	2010	Fixed rate 0.9%
ESPLC	BES0310_34E BESESPLC22/12/2009		EUR	2009	9,986	2010	Fixed rate 0.62%
ESPLC	BES0210_35E BESESPLC22/02/2010		EUR	2009	9,993	2010	Fixed rate 0.49%
ESPLC	BES0310_36E BESESPLC30/03/2010		EUR	2009	9,985	2010	Fixed rate 0.61%
BES (Spain branch)	Commercial Paper		EUR	2009	9,940	2010	Fixed rate 1.873%
BES (Spain branch)	Commercial Paper		EUR	2009	1,392	2010	Fixed rate 1.730%
BES (Spain branch)	Commercial Paper		EUR	2009	4,082	2010	Fixed rate 1.712%
BES (Spain branch)	Commercial Paper		EUR	2009	2,865	2010	Fixed rate 1.696%
BES (Spain branch)	Commercial Paper		EUR	2009	3,270	2010	Fixed rate 1.613%
BES (Spain branch)	Commercial Paper		EUR	2009	1,328	2010	Fixed rate 1.597%
BES (Spain branch)	Commercial Paper		EUR	2009	4,294	2010	Fixed rate 1.741%
BES (Spain branch)	Commercial Paper		EUR	2009	1,886	2010	Fixed rate 1.567%
BES (Spain branch)	Commercial Paper		EUR	2009	4,466	2010	Fixed rate 1.526%
BES (Spain branch)	Commercial Paper		EUR	2009	198	2010	Fixed rate 1.493%
BES (Spain branch)	Commercial Paper		EUR	2009	5,456	2010	Fixed rate 1.45%

in thousands of euro

31.12.2009						
Issuer	Designation	Currency	Issue date	Book value	Maturity	Interest rate
BES (Spain branch)	Commercial Paper	EUR	2009	4,168	2010	Fixed rate 1.373%
BES (Spain branch)	Commercial Paper	EUR	2009	8,429	2010	Fixed rate 1.335%
BES (Spain branch)	Commercial Paper	EUR	2009	94,827	2010	Fixed rate 1.154%
BES (Spain branch)	Commercial Paper	EUR	2009	5,955	2010	Fixed rate 1.177%
BES (Spain branch)	Commercial Paper	EUR	2009	6,990	2010	Fixed rate 0.707%
ESBANK	Certificate deposit	USD	2009	41,045	2010	Fixed rate 2.221%
				33,101,099		

a) Designated liabilities at fair value through profit or loss.
b) Indexed to fixed rate of 6.00% from 1st to 4th years and indexed to swap rate after the 4th year.
c) Fixed rate of 1.25% with option, at maturity, of receive Bradesco shares instead of capital dividends.
d) Indexed to a basket composed by Altadis, Deutsche Bank, Deutsche Telecom, Inditex, Nokia and Banco Popular shares.
e) Indexed to a basket composed by EUGATR, Eurostoxx 50, Short EUR/Long USD, Goldman Sachs Commodity Index Excess Return.
f) Indexed to exchange and interest rate.
g) Indexed to credit risk.
h) Indexed to previous coupon + spread - Euribor.
i) Indexed to reverse floater.
j) Indexed to a basket composed by Dow Jones Eurostoxx 50, S&P 500 and Nikkei 225 Index.
k) Indexed to a basket composed by AXA, Alianz and ING shares.
l) Indexed to a basket composed by EDP, Iberdrola, FPL Group, Gamesa, Vestas Wind Systems and Solarworld shares.
m) Indexed to a basket composed by DJ Eurostoxx 50, SP500, BOVESPA, iShares MSCI Pacific ex-Japan Index.
n) Indexed to a basket composed by DJ Eurostoxx 50, SP500 and Topix Index.
o) Indexed to a basket composed by BCP, EDP, Brisa and PT shares.
p) Indexed to a basket composed by BBVA and BSCH shares.
q) Indexed to a basket composed by First Solar inc, Suntech Power and Sunpower Corp shares.
r) Indexed to a basket composed by MSCI Taiwan, Hang Seng, Hang Seng China Enterprises, Nifty, Kospi200, MSCI Singapore Index.
s) Indexed to a basket composed by LVMH, Christian Dior, Philips, Pinault Pritemps, Nokia, Bulgari, Porsche, Swatch, Burberry, Daimler.
t) Indexed to a basket composed by DBIX India, Russian Depositary, Hang Seng and MSCI Brazil Index.
u) Indexed to credit risk (First to default) on Brisa, Bancaja, Portugal Telecom, Cimpor and Repsol.
v) Indexed to IBOXX Eurozone, SP GSCI Excess Return, EUR/USD and DJ Eurostoxx 50.
w) Indexed to a basket composed by Total, EON, Telefonica, Eni SPA, France Telecom, Deutsche Telecom, General Electric, Louis Vuitton, Allianz and Fortis shares.
x) Indexed to a basket composed by EDP, Iberdrola, FPL Group, Gamesa, Vestas Wind Systems and Solarworld shares.
y) Indexed to a basket composed by BBVA, Repsol and Telefonica shares.
z) Indexed to a basket composed by ROCHE HOLDING, SANOFI, NOVARTIS, PFIZER, ASTRAZENECA, TELEFONICA, FRANCE TELECOM and DEUTSCHE TELEKOM shares.
aa) Indexed to a basket composed by BBVA, REPSOL and ENEL shares.
ab) Indexed to a basket composed by MSCI India, MSCI Brasil and iShares FTSE/Xinua China shares.
ac) Indexed to a basket composed by Gas Natural and Repsol shares.
ad) Indexed to a basket composed by France Telecom and Deutsche Telekom shares.
ae) Indexed to a basket composed by Eurostoxx, SP500, Nasdaq100 and iShare MSCI Brazil Fund Index.
af) Indexed to a basket composed by Topix, Hang Seng, Hang Seng China Enterprises, S&P NIFTY, KOSPI2, MSCI Singapore Index.
ag) Indexed to a basket composed by ROCHE HOLDING, SANOFI, NOVARTIS, PFIZER, ASTRAZENECA shares.
ah) Indexed to a basket composed by DJ Eurostoxx 50, SP500 and Nikkei 225 Index.
ai) Indexed to a basket composed by Power Shares DB Agriculture Fund and Financial Select Sector SPDR Fund Index.
aj) Indexed to a basket composed by BBVA, Credit Agricole and Fortis shares.
ak) 1st year: Fixed rate, from 2nd year: Euribor 6M + 150Bps, indexed to BESI Brazil.
al) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Itau Unibanco and Banco Bradesco shares.
am) Indexed to a basket composed by Brisa, EDP, Galp, BSCH and BCP shares.
an) Indexed to a basket composed by Petroleo Brasileiro, Banco Bradesco, Companhia Vale Rio Doce shares.
ao) Overnight rate (Brazil).

NOTE 33 – PROVISIONS

As at 31 December 2009 and 2008, the balance of provisions presents the following movements:

in thousands of euro

	Restructuring provision	Other provisions	Total
Balance as at 31 December 2007	**24,201**	**119,749**	**143,950**
Charge for the year	5,688	14,158	19,846
Charge off	(22,049)	(10,182)	(32,231)
Exchange differences and other	-	(354)	(354)
Balance as at 31 December 2008	**7,840**	**123,371**	**131,211**
Charge for the year	-	53,160	53,160
Charge off	(6,311)	-	(6,311)
Exchange differences and other	-	1,791	1,791
Balance as at 31 December 2009	**1,529**	**178,322**	**179,851**

Other provisions in the amount of euro 178,322 thousands (31 December 2008: euro 123,371 thousands) are intended to cover certain contingencies related to the Group's activities, as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Group has provisions in the amount of approximately euro 56.4 millions (31 December 2008: euro 33.4 millions) to cover these contingencies;
- Contingencies in connection with legal processes established following the bankruptcy of clients which might imply losses for the Group. Provisions in the amount of euro 24.0 millions as at 31 December 2009 (31 December 2008: euro 17.0 millions) were established to cover these losses;
- Contingencies for ongoing tax processes. To cover these contingencies, the Group maintains provisions of approximately euro 60.8 millions (31 December 2008: euro 53.3 millions);
- The remaining balance of approximately euro 37.1 millions (31 December 2008: euro 19.7 millions), is maintained to cover potential losses within the normal activities of the Group, such as frauds, robbery and on-going judicial cases.

NOTE 34 – INCOME TAXES

The Bank and its subsidiaries domiciled in Portugal are subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes. BES Group determined its current and deferred income tax balance for the years ended 31 December 2009 and 2008 and on the basis of a nominal rate of 26.5%, in accordance with the Law No. 107-B/2003 from 31 December and Law No. 2/2007 of 15 January (approved Local Tax Law).

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

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2009 and 2008 can be analysed as follows:

in thousands of euro

	Assets		Liabilities		Net	
	31.12.2009	**31.12.2008**	**31.12.2009**	**31.12.2008**	**31.12.2009**	**31.12.2008**
Derivative financial instruments	3,227	10,849	(80,452)	(73,756)	(77,225)	(62,907)
Available-for-sale financial assets	40,000	56,974	(86,266)	(32,965)	(46,266)	24,009
Loans and advances to customers	212,717	149,612	-	-	212,717	149,612
Property and equipment	-	-	(11,498)	(10,930)	(11,498)	(10,930)
Intangible assets	111	158	-	-	111	158
Investments in subsidiaries and associates	31,583	26,535	(31,587)	(48,418)	(4)	(21,883)
Provisions	29,890	18,459	(119)	-	29,771	18,459
Pensions	23,257	16,499	(43,772)	(42,782)	(20,515)	(26,283)
Health care - SAMS	30,282	27,176	-	-	30,282	27,176
Long-term service benefits	7,267	6,965	-	-	7,267	6,965
Debt securities issued	-	-	(24,226)	(7,404)	(24,226)	(7,404)
Other	8,737	7,523	(5,813)	(6,508)	2,924	1,015
Tax losses brought forward	5,317	6,318	-	-	5,317	6,318
Deferred tax asset / (liability)	**392,388**	**327,068**	**(283,733)**	**(222,763)**	**108,655**	**104,305**
Assets / liabilities compensation for deferred taxes	(204,517)	(185,315)	204,517	185,315	-	-
Deferred tax asset / (liability), net	**187,871**	**141,753**	**(79,216)**	**(37,448)**	**108,655**	**104,305**

The Group does not recognise the deferred tax liabilities on temporary differences of subsidiaries and associates for which it controls the reversion period and that are realized through the distribution of tax-exempt dividends.

Adittionaly, the Group does not recognise deferred tax assets on tax losses brought forward by certain subsidiaries, because it is not expectable that they will be recovered in a foreseeable future. A detail of the tax losses brought forward for which no deferred tax assets were recognised, is presented as follows:

in thousands of euro

Deadline to deduction	Tax losses brought forward	
	31.12.2009	**31.12.2008**
2008	-	10,689
2009	8,760	8,760
2010	9,598	9,598
2011	6,235	6,235
2012	1,155	1,155
2013	826	1,397
2014	15,492	19,588
	42,066	**57,422**

The changes in deferred taxes were recognised as follows:

in thousands of euro

	31.12.2009	**31.12.2008**
Balance at the beginning of the year	**104,305**	**(231,957)**
Recognised in the income statement	68,862	67,486
Recognised in fair value reserve [1)]	(84,440)	268,874
Recognised in other reserves	18,970	2,506
Exchange differences and other	958	(2,604)
Balance at the end of the year (Assets/ (Liabilities))	**108,655**	**104,305**

1) The amount recognised in the consolidated statement of comprehensive income includes, additionally, the deferred tax recognised on the fair value reserves of associates in the amount of euro 12,545 thousands (costs) (31 December 2008: euro 22,768 thousands - gains).

The deferred tax recognised in the income statement and reserves, during 2009 and 2008 is analysed as follows:

in thousands of euro

	31.12.2009		**31.12.2008**	
	Recognised in (profit) /loss	**Recognised in reserves**	**Recognised in (profit) /loss**	**Recognised in reserves**
Derivative financial instruments	14,318	-	(1,027)	-
Available-for-sale financial assets	(14,165)	84,440	(18,937)	(268,874)
Loans and advances to customers	(63,105)	-	(47,842)	-
Property and equipment	568	-	2,008	-
Intangible assets	47	-	39	-
Investments in subsidiaries and associates	(8,112)	(13,767)	(4,679)	-
Provisions	(11,312)	-	1,239	-
Pensions	(4,097)	(1,671)	7,794	(3,341)
Health care - SAMS	(3,106)	-	(5,364)	-
Long-term service benefits	(302)	-	(495)	-
Debt securities issued	16,822	-	-	-
Other	2,582	(3,532)	4,405	835
Tax credits resulting from double tax treaties	-	-	-	-
Tax losses brought forward	1,000	-	(4,627)	-
Deferred taxes	**(68,862)**	**65,470**	**(67,486)**	**(271,380)**
Current taxes	**178,681**	**944**	**150,984**	**3,831**
Total	**109,819**	**66,414**	**83,498**	**(267,549)**

The current tax recognised in reserves includes a tax gain of euro 823 thousands related to costs incurred in the capital increase, a cost of euro 1,671 thousands related to retirement pensions and euro 96 thousands related to the share based payments scheme (31 December 2008: euro 3,341 thousands related to retirement pensions and euro 186 thousands related to share based payments scheme).

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

in thousands of euro

	31.12.2009		31.12.2008	
	%	Amount	%	Amount
Profit before taxes and minority interest		684,911		510,643
Statutory tax rate	26.5		26.5	
Income tax calculated based on the statutory tax rate				
		181,501		135,320
Diferences on the subsidiaries statutory tax rates	(2.32)	(15,922)	(1.6)	(8,234)
Tax-exempt dividends	(2.17)	(14,864)	(7.3)	(37,392)
Tax-exempt profits (off shore)	(5.7)	(38,869)	(5.2)	(26,444)
Tax-exempt gains	(3.9)	(26,593)	(0.4)	(2,012)
Changes in estimates	(0.0)	(56)	(0.0)	(23)
Tax losses used for which no deferred tax assets were recognised	0.0		0.3	1,741
Unrecognised deferred tax assets related to tax losses generated in the year	0.2	1,382	2.3	11,860
Non-taxable share of profit in associates	(1.1)	(7,944)	1.1	5,377
Non deductible costs	4.5	31,118	0.7	3,460
Other	0.0	66	(0.0)	(155)
	16.0	**109,819**	**16.4**	**83,498**

NOTE 35 – SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Bonds	1,589,331	1,649,819
Loans	222,645	228,527
Perpetual Bonds	827,095	950,637
	2,639,071	**2,828,983**

The main features of the subordinated debt are presented as follows:

in thousands of euro

		31.12.2009					
Issuer	**Designation**	**Currency**	**Issue Date**	**Amount Issued**	**Carrying amount**	**Interest Rate**	**Maturity**
BES (Cayman branch)	Subordinated loans	JPY	2005	213,068	222,645	3.95%	2015
BES Finance	Subordinated loans	EUR	2000	300,000	316,623	6.63%	2010
BES Finance	Subordinated loans	EUR	2001	400,000	415,502	6.25%	2011
BES Finance	Subordinated perpetual bonds	EUR	2002	500,000	484,996	6.63%	2012 a)
BES Finance	Subordinated perpetual bonds	EUR	2004	500,000	327,087	4.50%	2015 a)
BES Finance	Subordinated loans	EUR	2008	20,000	20,031	Euribor 3M + 1%	2018
BESI	Subordinated loans	BRL	2008	1,683	2,041	1.30%	2013
BESI	Subordinated loans	BRL	2007	21,134	21,927	1.30%	2014
BESI	Subordinated loans	BRL	2008	10,099	12,343	1.30%	2015 a)
BESI	Subordinated loans	EUR	2005	60,000	45,928	5.33%	2015
BESI	Subordinated loans	EUR	2003	10,000	9,897	5.50%	2033
BES	Subordinated loans	EUR	2001	7,000	504	Euribor 6M + 1.25%	2011
BES	Subordinated loans	EUR	2004	25,000	25,112	Euribor 6M + 1.25%	2014
BES	Subordinated perpetual bonds	EUR	2005	15,000	15,012	Euribor 3M + 2.25%	2015
BES	Subordinated loans	EUR	2008	40,650	31,034	Euribor 3M + 1%	2018
BES	Subordinated loans	EUR	2008	638,450	638,330	Euribor 3M + 1%	2019
BES	Subordinated loans	EUR	2008	50,000	50,059	Euribor 3M + 1.05%	2018
				2,812,084	**2,639,071**		

a) Call option date

The main features of the subordinated debt are presented as follows:

in thousands of euro

	31.12.2008	Issues	Repayments	Net Repurchases	Other movements a)	31.12.2009
Bonds	1,649,819	-	(33,282)	(1,773)	(25,433)	1,589,331
Loans	228,527	-	-	-	(5,882)	222,645
Perpetual Bonds (b)	950,637	257,133	-	(366,864)	(13,811)	827,095
	2,828,983	**257,133**	**(33,282)**	**(368,637)**	**(45,126)**	**2,639,071**

a) Other include accrued interest, fair value and foreign exchange translation adjustments.
b) In the issues were considered the amounts corresponding to debt replacements previously repurchased by the Group.

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following the repurchases performed in 2009 and in 2008, the Group has recognised a gain in the amount of euro 110.5 millions and euro 27.9 millions, respectively (see Note 10).

NOTE 36 – OTHER LIABILITIES

As at 31 December 2009 and 2008, the balance other liabilities is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Creditors		
Public sector	44,630	49,609
Creditors arising out from future contract	28,197	49,641
Deposit accounts	120,886	185,462
Sundry creditors		
Creditors from transactions with securities	119,978	187,395
Suppliers	82,000	73,562
Creditors from factoring operations	3,670	15,979
Other sundry creditors	222,167	241,430
	621,528	**803,078**
Accrued expenses		
Long-term service benefits (see Note 12)	28,602	27,412
Other accrued expenses	143,187	147,384
	171,789	**174,796**
Deferred income	**32,978**	**12,078**
Other sundry liabilities		
Stock exchange transactions pending settlement	226,014	90,450
Foreign exchange transactions pending settlement	73,608	128,799
Other transactions pending settlement	103,834	107,069
	403,456	**326,318**
	1,229,751	**1,316,270**

The stock exchange transactions pending settlement refer to transactions with securities on behalf of third parties, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.6.

NOTE 37 – SHARE CAPITAL, SHARE PREMIUM, TREASURY STOCK AND PREFERENCE SHARES

Ordinary shares

As at 31 December 2009, the Bank's share capital in the amount of euro 3,500 million, was represented by 1,166,666,666 ordinary shares with a face value of euro 3 each, which were subscribed and fully paid by the following entities:

	% Share capital	
	31.12.2009	**31.12.2008**
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	40.00%	40.00%
Crédit Agricole, S.A.	10.81%	10.81%
Bradport, SGPS, S.A. [1]	6.05%	3.05%
Pensions Fund of associates of Portugal Telecom [2]	2.62%	2.62%
Other	40.52%	43.52%
	100.00%	**100.00%**

1) Portuguese company fully owned by Banco Bradesco, S.A. (Brazil)
2) This entity's voting rights are attributable to Portugal Telecom.

In April 2009, the Bank performed a capital increase, in a process comprising three phases:

1st phase - reduction of the Bank share capital from euro 2,500 millions to euro 500 millions, through the reduction of the nominal value of all of the 500 millions shares representing the share capital from euro 5 to euro 1, and the corresponding and immediate constitution of a special reserve for the amount of euro 2,000 millions;
2nd phase – realisation of a capital increase in the amount of euro 1,200 millions through the issuance of 666,666,666 new shares with a nominal value of euro 1 each, and a subscription price of euro 1.8;
3rd phase – realisation of a new capital increase in the amount of euro 2,333 millions, by incorporation of reserves (including the special reserve of euro 2,000 millions, set-up during the 1st phase, and issuance and reserve premiums), through the increase of the nominal value of all of the shares.

Following the capital increase, the Group incurred on transaction costs in the amount of euro 16,431 thousands, which were recognised against the share premium, net of the respective tax, in accordance with the accounting policy described in Note 2.9.

Preference shares

The Group issued 450 thousands non-voting preference shares, which were listed in the Luxembourg stock Exchange in July 2003. In March 2004, 150 thousands preference shares were additionally issued forming a single series with the existing preference shares, in a total amount of euro 600 millions. The face value of these shares is euro 1,000 and is wholly (but not partially) redeemable by option of the issuer at its face value, as at 2 July 2014, subject to prior approvals of BES and Bank of Portugal.

These preference shares pay an annual non cumulative preferred dividend, if and when declared by the Board of Directors of the issuer, of 5.58% p.a. on nominal value. The dividend is paid on 2 July of each year, beginning 2 July 2004 and ending 2 July 2014.

If the issuer does not redeem these preference shares on 2 July 2014, the dividend applicable rate will be the 3 months Euribor plus 2.65% p.a., with payments on 2 January, 2 April, 2 July and 2 October of each year, if declared by the Board of Directors of the issuer.

BES unconditionally guarantees dividends and principal repayment related to the above mentioned issue, until the limit of the dividends previously declared by the Board of Directors of the issuer.

As at 31 December 2009, the Group charged against reserves the amount of euro 33,480 thousands (31 December 2008: euro 33,480 thousands) related to the dividends declared by the Board of Directors of the issuer, as at 20 May, which were paid as at 2 July 2009.

These shares rank lower than any BES liability, and pari passu relative to any preference shares that may come to be issued by the Bank.

Share Premiums

As at 31 December 2009, share premiums are represented by euro 1,085,399 thousands related to the premium paid by the shareholders following the share capital increases.

Treasury stock

The Bank's General Meeting of 20 June 2000 approved the set up of a stock-based incentive scheme (see Note 2.15), which started in 2000. As at 31 December 2009, 1 276 thousand shares of BES (0.11% of total share capital), are allocated (31 December 2008: 2,479 thousand of shares, 0.50% of total share capital), for an overall amount of euro 25.1 millions (31 December 2008: euro 29.8 millions). These shares are recognised as treasury stock, as described in Note 2.15

The movement in treasury stocks is analysed as follows:

	31.12.2009		31.12.2008	
	Number of shares	Amount (thousands of euro)	Number of shares	Amount (thousands of euro)
Opening balance	2,479,081	29,838	3,484,262	41,437
Shares sold [1]	(1,202,820)	(4,755)	(1,005,181)	(11,599)
Period-end balance	**1,276,261**	**25,083**	**2,479,081**	**29,838**

1) Includes the shares sold by the Bank in the market after the exercise by the employees of the option to sell the shares back to BES at acquisition cost, and the shares liquidated by the employees at the maturity of the plans.

NOTE 38 – FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS AND MINORITY INTEREST

Legal Reserve

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

Fair value reserve

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

During the years ended 31 December 2009 and 2008, the changes in these balances were as follows:

in thousands of euro

	Fair value reserve			Other reserves and retained earnings			
	Available for-sale financial assets	Deferred tax reserves	Total fair value reserve	Legal reserve	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2007	**896,691**	**(249,990)**	**646,701**	**166,910**	**9,696**	**114,786**	**291,392**
	-	-	-	-	-	517	517
Dividends from preference shares	-	-	-	-	-	(33,480)	(33,480)
Changes in fair value	(1,195,229)	282,194	(913,035)	-	-	-	-
Exchange differences	-	-	-	-	(2,170)	-	(2,170)
Transfer to reserves	-	-	-	61,753	-	306,460	368,213
Balance as at 31 December 2008	**(298,538)**	**32,204**	**(266,334)**	**228,663**	**7,526**	**388,283**	**624,472**
Capital increase	-	-	-	(228,663)	-	-	(228,663)
- Capital decrease	-	-	-	-	-	2,000,000	2,000,000
- Special reserve incorporation	-	-	-	(228,663)	-	(2,000,000)	(2,228,663)
Share-based incentive plan (SIBA)	-	-	-	-	-	266	266
Dividends from preference shares	-	-	-	-	-	(33,480)	(33,480)
Changes in fair value	663,861	(96,694)	567,167	-	-	-	-
Exchange differences	-	-	-	-	(13,160)	-	(13,160)
Transfer to reserves	-	-	-	22,000	-	300,628	322,628
Balance as at 31 December 2009	**365,323**	**(64,490)**	**300,833**	**22,000**	**(5,634)**	**655,697**	**672,063**

The fair value reserve is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Amortised cost of available-for-sale financial assets	8,280,675	7,410,605
Accumulated impairment losses recognised	(137,890)	(106,160)
Amortised cost of available-for-sale financial assets, net of impairment	**8,142,785**	**7,304,445**
Fair value of available-for-sale financial assets	8,531,600	7,094,111
Net unrealised gains recognised in the fair value reserve	388,815	(210,334)
Fair value reserves related to securities reclassified as held-to-maturity investments (Note 22)	(19,560)	(28,258)
Deferred taxes	(64,549)	19,315
Fair value reserve of associates appropriated on consolidation	(5,841)	(39,799)
Net fair value reserve	**298,865**	**(259,076)**
Minority interests	1,968	(7,258)
Fair value reserve attributable to equity holders of the Bank	**300,833**	**(266,334)**

The movement in the fair value reserve, net of deferred taxes, impairment losses and minority interest is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Balance at the beginning of the year	**(266,334)**	**646,701**
Changes in fair value	824,231	(1,039,255)
Disposals during the year	(189,239)	(213,378)
Impairment recognised during the year	28,869	57,404
Deferred taxes recognised in reserves during the year	(96,694)	282,194
Balance at the end of the year	**300,833**	**(266,334)**

Minority Interest

Minority interest by subsidiary are analysed as follows:

in thousands of euro

	31.12.2009		31.12.2008	
	Balance sheet	**Income statement**	**Balance sheet**	**Income statement**
ES CONCESSÕES	19,372	1,170	19,971	(1,071)
BES ANGOLA	133,245	39,958	38,986	16,362
ESAF	16,798	2,959	16,242	3,205
BES AÇORES	15,402	1,792	14,606	2,401
BEST	9,502	1,504	8,265	783
BES Investimento do Brasil	16,521	2,747	5,640	(109)
BES Securities	19,613	4,021	11,347	3,374
FCR *VENTURES* II	23,269	(931)	21,564	(1,902)
FCR *VENTURES* III	1,726	(919)	-	-
FCR PME/BES	11,323	217	11,973	942
Fundo Multimercado	12,975	175	-	-
Fundo Absolute Return	180	261	-	-
Others	3,631	24	4,915	876
	283,557	**52,978**	**153,509**	**24,861**

The movements in minority interest in the years ended 31 December 2009 and 2008 are analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Minority interests at the beginning of the year	**153,509**	**141,131**
Changes in the scope of consolidation	33,534	(3,368)
Capital increase (subsidiaries)	51,415	20,298
Capital decrease (subsidiaries)	(4,632)	(3,487)
Changes in fair value reserve	1,687	(22,136)
Exchange differences and other	(4,934)	(3,790)
Profit for the year	52,978	24,861
Minority interests at the end of the year	**283,557**	**153,509**

NOTE 39 – OFF-BALANCE SHEET ITEMS

As at 31 December 2009 and 2008, this balance can be analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Contingent liabilities		
Guarantees and stand by letters of credit	6,983,166	6,426,610
Assets pleged as collateral	3,789,253	2,279,209
Open documentary credits	3,016,076	2,127,792
Other	158,296	107,946
	13,946,791	10,941,557
Commitments		
Revocable commitments	8,612,423	10,027,892
Irrevocable commitments	5,338,345	4,586,554
	13,950,768	14,614,446

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

As at 31 December 2009, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Bank of Portugal (i) for the use of the money transfer system (Sistema de Pagamento de Grandes Transacções) in the amount of euro 151,762 thousands (31 December 2008: euro 254,610 thousands) and (ii) in the scope of a liquidity facility collateralised by securities in the amount of euro 3,008 millions (as at 31 December 2009, securities eligible for rediscount at the Bank of Portugal amounted to euro 4,444 millions);

- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 19,368 thousands (31 December 2008: euro 15,322 thousands);

- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 61,847 thousands (31 December 2008: euro 62,894 thousands);

- Securities pledged as collateral to the European Investment Bank in the amount of euro 522,500 thousands (31 December 2008: euro 521,600 thousands).

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

The documentary credits are irrevocable commitments from the Group on behalf of its clients, to pay/order to pay a determined amount to the supplier of a given commodity or service, within a stipulated period, against the presentation of documents referring to the expedition of the commodity or rendering of the service. The condition of irrevocability consists on the fact of not being viable his cancellation or alteration without the agreement of all the involved parties.

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

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

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

in thousands of euro

	31.12.2009	31.12.2008
Securities and other items held for safekeeping on behalf of customers	72,080,912	60,595,075
Assets for collection on behalf of clients	286,509	280,250
Securitised loans under management (servicing)	3,426,539	3,766,429
Other responsabilities related with banking services	7,974,169	4,136,767
	83,768,129	**68,778,521**

NOTE 40 – ASSETS UNDER MANAGEMENT

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2009 and 2008, the amount of the investment funds managed by the Group is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Securities investment funds	5,530,986	4,748,358
Real estate investment funds	1,263,209	1,142,083
Pension funds	2,721,960	2,608,269
Bancassurance	5,511,442	5,189,448
Portfolio management	2,560,866	1,968,173
Other	1,533,897	1,852,541
	19,122,360	**17,508,872**

The amounts recognised in these accounts are measured at fair value determined at the balance sheet date.

NOTE 41 – RELATED PARTIES TRANSACTIONS

The entities considered to be BES Group related parties together with the subsidiaries referred in Note 1, as defined by IAS 24, are as follows:

Associates companies

Company

Fin Solutia - Consultoria e Gestão de Créditos, SA
Polish Hotel Company, SP
Polish Hotel Capital SP
Polish Hotel Management Company, SP
SES Iberia
Hlc - Centrais de Cogeração, SA
Coporgest
Neumáticos Andrés, Investment, SA
Synergy Industry and Technology, S.A.
Salgar Investments
SO PESO Restauração e Hotelaria, SA
Apolo Films SL
Brb Internacional, S.A.
Prosport, SA
S.G.P.I.C.E.-Soc. de Serviços de Gestão de Portais na Internet e Consultoria de Empresas, S.A.
Banque Espirito Santo et de la Vénétie, SA
E.S. Contact Center - Gestão de Call Centers, SA
Esiam - Espirito Santo International Asset Management, Ltd
Oblog - Consulting, SA
Europe Assistance - Companhia Portuguesa de Seguros de Assistência, SA
Fiduprivate - Sociedade de Serviços, Consultadoria e Administração de Empresas, SA
Esumédica - Prestação de Cuidados Médicos, SA
Société 45 Avenue Georges Mandel, SA
BES, Companhia de Seguros , SA
BES-Vida, Companhia de Seguros, SA
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA
Esegur - Empresa de Segurança, SA
Empark Aparcamientos y Servicios SA
Concesionaria Autopista Perote-Xalapa, CV
Ascendi - Concessões de Transportes, SGPS, SA
Lusoscut - Auto-Estradas da Costa de Prata, S.A.
Lusoscut - Auto-Estradas das Beiras Litoral e Alta, S.A.
Lusoscut - Auto-Estradas do Grande Porto, S.A.
SOUSACAMP, SGPS, SA
GLOBAL ACTIVE - GESTÃO P.S.SGPS, SA
OUTSYSTEMS, SA
Coreworks - Proj. Circuito Sist. Elect., SA
Multiwave Photonics, SA
BIO-GENESIS
YDreams - Informática, SA
AQUASPY Group Pty Limited
Nutrigreen, S.A.
Advance Ciclone Systems, SA
Mobile World - Comunicações, SA
Sopratutto Café , SA
Enkrott SA
Rodi Sinks & Ideas, SA
CORTINOVADOR, SA
Nova Figfort - Têxteis, Lda
BANCO DELLE TRE VENEZIE SPA

ESFG's subsidiaries, associates and related entities

Company

Bespar - Sociedade Gestora de Participações Sociais, SA
Banque Privée Espírito Santo
ES Bank (Panama), SA
ES Bankers (Dubai) Limited
Group Credit Agricole
Espirito Santo Financial (Portugal), SGPS, SA
Espirito Santo Financial Group, SA
ESFG International, Ltd
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo)
Espírito Santo International SA
MANDEL PARTNERS
Espírito Santo Saúde SGPS, S.A.
Clínica Parque dos Poetas, SA
Cliria - Hospital Privado de Aveiro, SA
ES Saúde - Residência com Serviços Senior, S.A.
Espírito Santo - Unidades de Saúde e de Apio à Terceira Idade, S.A.
Genomed, Diagnóstico de Medicina Molecular, SA
HCI - Health Care International, Inc
HME Gestão Hospitalar
Hospital da Arrábida - Gaia, SA
Hospital da Luz - Centro Clínico da Amadora, SA
Hospital da Luz, SA
Hospor - Hospitais Portugueses, SA
Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A.
RML - Residência Medicalizada de Loures, SGPS, SA
Surgicare - Unidades de Saúde, SA
Vila Lusitano - Unidades de Saúde, SA
Key Space Investments LLC
Marignan Courtage, SA
Marignan Gestion, SA
Omnium Lyonnais de Participations Industrielles, SA
Partran - Sociedade Gestora de Participações Sociais, SA
Société Antillaise de Gestion Financiére, S.A. - SAGEFI
Seguros Logo, SA
Société Lyonnaise de Marchands de Biens
Pavilis - Pré-Fabricação, SA
Paviseu - Materiais Pré-Fabricados, SA
Pavicentro - Pré-Fabricação, SA
Pavitel, SARL
T - Vida, Companhia de Seguros, SA
Companhia de Seguros Tranquilidade, SA
Escom Investments BV
Escom Capital Development Ltd
Escom - Congo, SARL
Escom Energy, Ltd
Escom - Espírito Santo Imobiliária, SARL
Escom Infrastructures BV
Escom Investimentos e Participações, SA
Escom Kimberlities, Ltd
Escom Management, Ltd
Escom Mining Chimbongo, Ltd
Escom Mining Development Co, Ltd
Escom Mining Inc
Escom Mining Services, Ltd
Escom Natural Resources BV
Escom Opca Africa Contractors BV
ESCOM - Promoção Imobiliária, Lda.
Espírito Santo Commerce RDC, SPRL
Escom Real Estate Ltd
Escom - Espirito Santo Commerce, SA
Escom Trading & Marketing, Ltd
Escopar - Sociedade Gestora de Participações Sociais, SA
ESDI Administração e Participações Ltda
Esger - Empresa de Serviços e Consultoria, SA
Espirito Santo International (BVI), SA
E.S. International Overseas, Ltd.
Esim - Espirito Santo Imobiliário, SA
E.S. - Espírito Santo, Mediação Imobiliária, S.A.
Espirito Santo Property SA
Espirito Santo Property Holding, SA
Espírito Santo Property España, S.L.
Espart Madeira SGPS, Unipessoal, Lda
Espart - Espirito Santo Participações Financeiras, SGPS, SA
Espirito Santo Resources, Ltd
Espirito Santo Resources (Portugal), SA
E.S. Resources Overseas, Ltd
Espírito Santo Resources SA
Estoril Inc
Euroamerican Finance Corporation, Inc.
Euroamerican Finance SA
Euroatlantic, Inc.
Europeia - Agência Turística, SA
Fafer - Empreendimentos Turisticos e de Construção, SA
Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, SA
Fisheries Co Limited
GES Finance Limited
Gesfimo - Espirito Santo, Irmãos, Soc. Gestora de Fundos de Investimento Imobiliários,SA
Gestres - Gestão Estratégica Espirito Santo, SA
Goggles Marine, Ltd
Sociedad Agricola Golondrina, S/A
GTD - Goods Trading and Distribution Inc.
GTD - Logistica e Serviços, Lda
GTD South Africa (Property) Ltd
HDC - Serviços de Turismo e Imobiliário, SA
Hélios Diamond, Ltd
Herdade da Boina - Sociedade Agrícola, SA
Herdade da Comporta - Actividades Agro Silvícolas e Turísticas, SA
Hoteis Tivoli, SA
Hotelagos, SA
Hospital Residêncial do Mar, SA
I.A.C. UK, Limited
Inter-Atlântico, S/A
Iber Foods - Produtos Alimentares e Biológicos, SA
Imopca, SA
Lote Dois - Empreendimentos Turisticos SA
Lupiri - Sociedade de Investimentos e Participações
Lusitânia, SA
Luzboa, SA
Luzboa Um, SA
Luzboa Dois, SA
Luzboa Três, SA
Luzboa Quatro, SA
BEMS, SGPS, SA
Sociedade de Pesca Mar Bonançoso Limitada
Sociedade de Pesca Mar Ondulado Limitada
Margrimar - Mármores e Granitos, SA
Marinoteis - Sociedade de Promoção e Construção de Hoteis, SA
Marmetal - Mármores e Materiais de Construção, SA
Multiger - Sociedade de Gestão e Investimento Imobiliário, SA
Multiples - Espírito Santo Services, Ltd
Mundo Vip - Operadores Turísticos, SA
Net Viagens - Agência de Viagens e Turismo, SA
New Horizon Diamonds, Ltd
New Media Investments Assets Ltd
Novagest Assets Management, Ltd
Opca Angola, SA
Opca Moçambique, Lda
Opcatelecom - Infraestuturas de Comunicação, SA
OPWAY - Engenharia, SA
OPWAY Imobiliária, SA
OPWAY - SGPS, SA
Pavi do Brasil - Pré-Fabricação, Tecnologia e Serviços, Lda. The Atlantic Company (Portugal) - Turismo e Urbanização, SA
Advancecare - Gestão e Serviços de Saúde, SA
Africa Natural Resources Ltd
Africa Networking & Consulting Ltd
Africa Resources Ltd
Agribahia, S/A
Air Gemini Angola - Companhia de Transportes Aéreos, Lda.
Sociedade de Investimentos Hotel Almansor, S.A.
African Markets Development Limited
Angola Diamonds International, Ltd
Angola Mining Finance, Ltd
Angola Mining Services, Ltd
Angola Technical Services, Ltd
Atr - Actividades Turisticas e Representações, Lda
Aveiro Incorporated
Beach Heath Investments, Ltd
BHP Billiton Escom Diamonds, Ltd
Companhia Agricola Botucatu, SA
Casas da Cidade - Residências Sénior, SA
Cerca da Aldeia - Sociedade Imobiliária, SA
Cimenta - Empreendimentos Imobiliários, SA
Clarendon Properties, Inc.
Clear Sky Diamonds, Ltd
Clínica Central de Oiã, SA
Clube de Campo da Comporta - Actividades Desportivas e Lazer, Lda
Club de Campo Villar Ollala, SA
Clup Vip - Marketing de Acontecimentos, SA
Clube Residencial da Boavista, SA
Companhia Brasileira de Agropecuária Cobrape
Coimbra Jardim Hotel - Sociedade de Gestão Hoteleira, S.A.
Construcciones Sarrión, SL
Ganadera Corina Campos y Haciendas, S/A
Condomínio Residencial Bela Vista Lda
E.S.B. Finance Ltd
Eastelco - Consultoria e Comunicação, SA
EGIA - Empresa de Gestão Imobiliária de Angola, SARL
Eichenberg, Gmbh
Equatorial Diamonds Ltd
E.S. Asset Administration, Ltd.
Espírito Santo Cachoeira Desenvolvimento Imobiliário Ltda
ES Comercial Agrícola, Ltda
Espírito Santo Guarujá Desenvolvimento Imobiliário Ltda
ES Holding Administração e Participações, S/A
Espírito Santo Hotéis, SGPS, SA
Espirito Santo Industrial (BVI), SA
Espírito Santo Indaiatuba Desenvolvimento Imobiliário Ltda
Espirito Santo Industrial, SA
Espírito Santo Industrial (Portugal) - SGPS, SA
Espirito Santo Irmãos - Sociedade Gestora de Participações Sociais, SA
Espírito Santo Itatiba Desenvolvimento Imobiliário Ltda
Espírito Santo Primavera Desenvolvimento Imobiliário Ltda
ES Private Equity, Ltd
Espirito Santo Property (Brasil) S/A
Espírito Santo Services, SA
Espirito Santo Tourism, Ltd
Espirito Santo Tourism (Europe), SA
Espírito Santo Venture Ltd
Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, SA
ES Viagens e Turismo, Lda
Espírito Santo Viagens - Consultoria e Serviços, SA
Esai - Espírito Santo Activos Imobiliários, Ltda (Brasil)
ESAP Brasil Agro-Pecuária, Ltda
Espirito Santo BVI Participation, Ltd
Escae Consultoria, Administração e Empreendimento, Ltda
Escom Investments Group Limited
Escom Alrosa Limited
Escom Espírito Santo Commerce (UK), Limited

ESFG's subsidiaries, associates and related entities

Company

Escom Afrique Central, Lda
Escom Agro Industries Investments Assets Ltd
Escom Alluviais, Ltd
Escom Ásia Lda
Personda - Sociedade de Perfurações e Sondagens, SA
Placon - Estudos e Projectos de Construção, Lda
Pojuca Administração, SA
Pojuca, SA
Pontave - Construções, SA
Agência Receptivo Praia do Forte, Ltda
Praia do Forte Operadora de Turismo, Ltda
Progest Congo, SARL
Prosistemas - Consultores de Engenharia, SA
Prosistemas Ambiente - Engenharia e Gestão, SA
Grupo Proyectos y Servicios Sarrion, SA
Quinray Technologies Corp.
Quinta da Areia - Sociedade Agrícola Quinta da Areia, SA
Sociedade Agricola Quinta D. Manuel I, SA
Recigreen - Reciclagem e Gestão Ambiental, SA
Recigroup - Industrias de Reciclagem, SGPS, SA
Recipav - Engenharia e Pavimentos, Unipessoal, Lda
Recipneu - Empresa Nacional de Reciclagem de Pneus, Lda
Rushton Business Consultants, Ltd
Santa Mónica - Empreendimentos Turísticos, SA
Saramagos S/A Empreendimentos e Participações
Savannah Diamonds, Ltd
Société Congolaise de Construction et Travaux Publiques, SARL
Series - Serviços Imobiliários Espirito Santo, SA
Société Immobiliére du Congo, SARL
SIM - Société D' Investissement Minier, SARL
Sintra Empreendimentos Imobiliários, Ltda
Sisges, SA Desenvolvimento de Projectos de Energia
Société Congolaise de Carriers et des Mines, SARL
Soguest - Sociedade Imobiliária, SA
Solférias - Operadores Turísticos, Lda
Soltrade International Limited
Sopol - Concessões, SGPS, SA
Sotal - Sociedade de Gestão Hoteleira, S.A.
Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, SA
Starfish - Empreendimentos Pesqueiros SARL
Suliglor - Imobiliária do Sul, SA
Sunrise Diamonds, Ltd
TA DMC Brasil - Viagens e Turismo, SA
Agência de Viagens Tagus, S.A.
Terras de Bragança Participações, Ltda
Timeantube Comércio e Serviços de Confecções, Ltda
Tivoli Gare do Oriente - Sociedade de Gestão Hoteleira, S.A.
TOP A DMC Viajes, SA
Top Atlântico - Viagens e Turismo, SA
Top Atlântico DMC, SA
Transcontinental - Empreendimentos Hoteleiros, SA
Turifonte, Empreendimentos Hoteleiros, SA
Turistrader - Sociedade de Desenvolvimento Turístico, SA
Ushuaia - Gestão e Trading Internacional Limited
Sociedade Agricola Turistica e Imobiliária Várzea Lagoa, SA
Vértice Serviços, Lda
Viveiros da Herdade da Comporta - Produção de Plantas Ornamentais, Lda
Sociedade de Administração de Bens-Pedra da Nau, S.A.
Ribeira do Marchante, Administração de Bens e Imóveis, S.A.
Casa da Saudade, Administração de Bens Móveis Imóveis, S.A.
Angra Moura-Sociedade de Administração de Bens,S.A.
Sociedade de Administração de Bens - Casa de Bons Ares, S.A.
Sociedade de Silvicultura Monte do Arneirinho, Lda
Campeque-Compra e Venda de Propriedades, Lda
Acro, Sociedade Gestora de Participações Sociais, S.A.
Le Clos Barrois, SARL
Construcciones Sarrion, SL

As at 31 December 2009 and 2008, the balances and transactions with related parties are presented as follows:

in thousands of euro

	31.12.2009					31.12.2008				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Associates companies										
ESUMÉDICA	2,507	-	4	58	35	1,859	-	-	69	22
EUROP ASSISTANCE	1,128	1,289	7	36	10	-	1,072	-	29	88
FIDUPRIVATE	136	10	-	-	-	3	-	-	-	16
BES VÉNÉTIE	413,556	84,733	252	10,977	44	388,375	76	3,037	16	15
BES SEGUROS	28	13,337	-	103	19	-	177	-	60	320
ESEGUR	1,750	316	2,303	66	116	-	191	1,651	64	139
BES VIDA	163,654	212,800	-	69,271	10,515	663,133	104,260	-	270,871	953
LOCARENT	141,500	341	-	5,584	9,228	118,932	-	-	7,142	8,324
ES CONTACT CENTER	1,726	-	74	52	-	-	-	-	-	-
EMPARK	48,267	-	-	1,064	-	-	-	-	-	-
ASCENDI	29,203	146	-	-	-	-	-	-	-	-
LUSOSCUT CP	3,877	46,948	-	86	24	-	-	-	-	-
LUSOSCUT BLA	9,143	23,902	-	204	144	-	-	-	-	-
LUSOSCUT GP	6,914	20,636	-	171	67	-	-	-	-	-
SOUSACAMP	20,000	109	-	116	-	-	-	-	-	-
OUTRAS	9,162	6,065	-	77	143	4,196	1,890	-	213	2
	852,551	**410,632**	**2,640**	**87,865**	**20,345**	**1,176,498**	**107,666**	**4,688**	**278,464**	**9,879**

Balances and transactions with the above referred entities relate mainly to loans and advances and deposits in the scope of the banking activity of the Group.

During 2008, BES sold 38 millions shares of Banco Bradesco to BES Vida, adjusted by the stock split, for an amount of euro 438.4 millions. During the same period, BES Vida sold all Bradesco shares. The gain from this sale amounted of euro 234.6 millions (see Note 8 and Note 19).

In the scope of the distribution and operating management agreement between BES, BES Vida and Crédit Agricole, BES granted BES Vida a guaranteed return over a group of assets associated to insurance and investment contracts. BES recognises this guarantee on its balance sheet as a liability at fair value against the income statement, when the expected return of assets is lower than the minimum guaranteed return to the policy holders. Based on the valuation performed as at 31 December 2009 and 2008, no liabilities arising from this guarantee were identified.

As at 31 December 2009 and 2008, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

in thousands of euro

	31.12.2009								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
ES FINANCIAL GROUP	-	-	-	-	-	-	-	-	-
ESF PORTUGAL	-	15	94,071	-	94,086	-	132	-	-
BESPAR	-	-	-	-	-	-	297	-	-
GRUPO CRÉDIT AGRICOLE	973	3,037	2,057	14,513	20,580	181	606	69	-
PARTRAN	-	-	-	-	-	-	79	-	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	5	-	-	5	-	346,520	-	114
COMPANHIA SEGUROS TRANQUILIDADE	-	2,762	-	462	3,224	622	13,699	1,101	758
ES IRMÃOS	-	81,422	-	-	81,422	-	-	2,033	-
ESCOM	-	332,339	161	3,823	336,323	639	135	5,729	-
BANQUE PRIVÉE ESPÍRITO SANTO	10,082	-	-	5	10,087	11,769	20,947	-	1,399
ES BANK PANAMA	46,000	-	-	-	46,000	-	1,573	3,523	-
ES SAUDE	-	126,669	15,810	10	142,489	1,530	8,996	2,412	-
OPWAY	-	42,927	-	-	42,927	37,662	51	647	-
T - VIDA	-	29,004	43,841	177	73,022	-	223,410	168	6
CONSTRUCCIONES SARRION	-	24,203	-	-	24,203	-	-	-	-
ESPÍRITO SANTO RESOURCES	-	-	-	-	-	-	380,000	-	168
Others	-	48,022	1,219	370	31,637	7,175	15,143	973	283
	57,055	**690,405**	**157,159**	**19,360**	**906,005**	**59,578**	**1,011,588**	**16,655**	**2,728**

in thousands of euro

	31.12.2008								
	Assets								
	Loans and advances to banks	Loans	Securities	Outros	Total	Guarantees	Liabilities	Income	Expenses
ES FINANCIAL GROUP	-	-	-	-	-	-	330,255	-	10,958
ESF PORTUGAL	-	-	95,911	-	95,911	-	256	358	200
BESPAR	-	-	-	-	-	-	3,887	1	933
GRUPO CRÉDIT AGRICOLE	973	13,602	50	12,362	26,987	11,384	21,311	593	456
PARTRAN	-	-	-	-	-	-	123	1	97
ESPÍRITO SANTO FINANCIÉRE, SA	-	133,097	-	-	133,097	-	10,104	5,656	1,658
COMPANHIA SEGUROS TRANQUILIDADE	-	1,187	-	-	1,187	1,029	66,059	1,463	3 805
ES IRMÃOS	-	78,684	-	-	78,684	-	-	2,463	-
ESCOM	-	258,859	83	3,795	262,737	-	332	115	-
BANQUE PRIVÉE ESPÍRITO SANTO	29,650	-	-	-	29,650	-	56,677	1,442	621
ES BANK PANAMA	218,000	3,984	-	-	221,984	-	-	9,981	475
ES SAUDE	-	101,981	15,810	4,000	121,791	2,784	8,956	10,368	257
Others	-	13,434	455	3,473	17,362	5,779	18,614	6,082	9,019
	248,623	**604,828**	**112,309**	**23,630**	**989,390**	**20,976**	**516,574**	**38,523**	**28,479**

The costs with salaries and other benefits attributed to BES Group key management personnel, as well as the transactions performed with BES Group key management personnel are presented in Note 11.

As at 31 December 2009, loans granted by BES Group to the members of the Board of Directors of ESFG that are not simultaneously members of the Board of Directors of BES, amounted to euro 5,698 thousands (31 December 2008: euro 6,520 thousands).

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

Credits granted to members of the Board of Directors correspond to operations under the BES core business, being excluded from the nr. 2, 3 and 4 of article 397 of the Código das Sociedades Comerciais. However, credit granted by the Group to members of the Board of Directors of credit institutions are under the scope of article 85 of the Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF), which text was amended by Decree-Law nr. 126/2008, of 21 July, being these operations subject to reporting to the Bank of Portugal, under the terms of Instruction nr. 13/2008. As such, under the above mentioned legislation, the main conditions for granting loans to members of the Board of Directors of credit institutions are:

- It cannot be granted credit to executive members of the Board of Directors and to the Fiscal Board (including first degree relatives), with the exception of operations (i) with a social purpose, (ii) under the company policies, or (iii) resulting from the use of credit cards in conditions similar to the ones applied to the general clients with similar risk profile. All these exception are included in nr. 4 of article 85 of RGICSF;
- Credit operations with non-executive members of the Board of Directors are subject to approval by a majority of at least two thirds of the remaining Board Members and can only be granted with the approval of the Fiscal Board, in accordance with nr. 8 of article 85 of RGICSF;
- The credit is granted and approved at market prices and the Board Member involved in the operation cannot intervene in the decision making process.

All credits granted to Board Members fulfil the above mentioned requirements.

All credits granted to related parties are included in the impairment model, being subject to provisions in the same manner that the commercial credits granted by the Group. As at 31 December 2009 and 2008, none of the credits granted to related parties were subject to individual impairment. However, these credits are subject to an impairment evaluation on a portfolio basis, as referred in Note 2.5 – Loans and advances to customers.

During the year ended 31 December 2009 and 2008 there were no transactions made with the Group pensions funds.

NOTE 42 – SECURITISATION TRANSACTIONS

As at 31 December 2009, the outstanding securitisation transactions performed by the Group were as follows:

in thousands of euro

Designation	Initial date	Original amount	Current amount	Asset securitised
Lusitano Mortgages No.1 plc	December 2002	1,000,000	476,807	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	484,389	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	681,199	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	768,966	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1,400,000	1,015,178	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862,607	838,561	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1,100,000	886,127	Mortgage loans (general regime)
Lusitano Project Finance No.1 plc	December 2007	1,079,100	789,333	Project Finance loans
Lusitano Mortgages No.7 plc	September 2008	1,900,000	1,885,758	Mortgage loans (general regime)

As permitted by IFRS 1, the Group has applied the derecognition requirements of IAS 39 for the transactions entered into after 1 January 2004. Therefore, the assets derecognised until that date, in accordance with the previous accounting policies, were not restated in the balance sheet.

The assets sold in the securitisation transactions Lusitano Mortgages No.3, Lusitano Mortgages No.4 and Lusitano Mortgages No.5, performed after 1 January 2004, were derecognised considering that the Group has transferred substantially all the risks and rewards of ownership.

In accordance with SIC 12, the Group fully consolidates Lusitano SME No. 1, plc, Lusitano Mortgages No.6 plc, Lusitano Mortgages No.7 plc and Lusitano Project Finance No.1 plc as it retains the majority of the risks and rewards associated with the activity of these SPE's. Therefore, the respective assets and liabilities are included in the consolidated balance sheet of the Group. The other securitisation vehicles are not included in the consolidated financial statements of the Group as it has not retained the majority of the risks and rewards of ownership.

The main characteristics of these transactions, as at 31 December 2009, can be analysed as follows:

in thousands of euro

Designation	Notes issued	Issued amount (par value)	Current amount (par value)	Securities held by the Group (par value)	Maturity date	Ratings (initial)			Ratings (actual)		
						Fitch	Moody's	S&P	Fitch	Moody's	S&P
Lusitano Mortgages No.1 plc	Class A	915,000	381,950	130	December 2035	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	32,500	32,500	-	December 2035	AA	Aa3	AA	AAA	Aa3	AA
	Class C	25,000	25,000	3,000	December 2035	AA	A2	A	AA-	A2	A
	Class D	22,500	22,500	-	December 2035	BBB	Baa2	BBB	BBB+	Baa2	BBB+
	Class E	5,000	5,000	-	December 2035	BB	Ba1	BB	BB+	Ba1	BB+
	Class F	10,000	10,000	-	December 2035	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920,000	407,452	6,245	December 2036	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	30,000	30,000	10,000	December 2046	AA	Aa3	AA	AAA	Aa3	AA
	Class C	28,000	28,000	5,000	December 2046	A	A3	A	A+	A3	A
	Class D	16,000	16,000	-	December 2046	BBB	Baa3	BBB	BBB+	Baa3	BBB
	Class E	6,000	6,000	-	December 2046	BBB-	Ba1	BB	BBB-	Ba1	BB
	Class F	9,000	9,000	-	December 2046	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1,140,000	627,329	5,173	December 2047	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	27,000	22,222	-	December 2047	AA	Aa2	AA	AA	Aa2	AA
	Class C	18,600	15,308	-	December 2047	A	A2	A	A	Baa1	A
	Class D	14,400	11,852	-	December 2047	BBB	Baa2	BBB	BBB-	Ba3	BBB
	Class E	10,800	10,800	-	December 2047	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	703,537	5,411	December 2048	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	22,800	21,553	-	December 2048	AA	Aa2	AA	AA	Aa2	AA
	Class C	19,200	18,150	-	December 2048	A+	A1	A+	A	A3	A+
	Class D	24,000	22,687	-	December 2048	BBB+	Baa1	BBB+	BB+	B2	BBB+
	Class E	10,200	10,200	-	December 2048	-	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1,323,000	956,634	723	December 2059	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	26,600	25,986	-	December 2059	AA	Aa2	AA	AA	A2	AA
	Class C	22,400	21,883	-	December 2059	A	A1	A	A	Baa2	A
	Class D	28,000	27,354	-	December 2059	BBB+	Baa2	BBB	BB+	B3	BBB
	Class E	11,900	11,900	-	December 2059	-	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759,525	759,525	16,150	December 2028	AAA	-	AAA	AAA	-	AAA
	Class B	40,974	40,974	-	December 2028	AAA	-	AAA	AAA	-	AAA
	Class C	34,073	34,073	-	December 2028	BB	-	BB	BB	-	BB
	Class D	28,035	28,035	28,035	December 2028	-	-	-	-	-	-
	Class E	8,626	8,626	8,626	December 2028	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943,250	721,829	30,425	March 2060	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	65,450	65,450	58,950	March 2060	AA	Aa3	AA	AA	Aa3	AA
	Class C	41,800	41,800	31,800	March 2060	A	A3	A	A	A3	A
	Class D	17,600	17,600	17,600	March 2060	BBB	Baa3	BBB	BBB-	Baa3	BBB
	Class E	31,900	31,900	31,900	March 2060	BB	-	BB	B	-	BB
	Class F	22,000	22,000	22,000	March 2060	-	-	-	-	-	-
Lusitano Project Finance No.1 plc	Class A	890,256	763,435	763,430	December 2037	-	-	AAA	-	-	AAA
	Class B	35,610	35,610	35,610	December 2037	-	-	AA	-	-	AA
	Class C	39,926	39,926	39,926	December 2037	-	-	A	-	-	A
	Class D	23,741	23,741	23,741	December 2037	-	-	BBB	-	-	BBB
	Class E	11,871	11,871	11,871	December 2037	-	-	BB	-	-	BB
	Class F	77,696	77,696	77,696	December 2037	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1,425,000	1,425,000	1,425,000	October 2064	-	-	AAA	-	-	AAA
	Class B	294,500	294,500	294,500	October 2064	-	-	BBB-	-	-	BBB-
	Class C	180,500	180,500	180,500	October 2064	-	-	-	-	-	-
	Class D	57,000	57,000	57,000	October 2064	-	-	-	-	-	-

As at 31 December 2009 and 2008 the consolidation of these entities had the following impact on the consolidated balance sheet:

in thousands of euro

	31.12.2009	31.12.2008
Loans to customers (net of impairment)	4,346,416	4,408,013
Debt securities issued	1,527,467	1,678,048
Equity	(11,659)	(22,201)
Net income	10,540	(6,208)

NOTE 43 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

in thousands of euro

		Fair Value				
	Amortised Cost	Quoted Market Prices	Valuation models based on observable market information	Valuation models based on non-observable market information	Book Value	Fair Value
Balance as at 31 December 2009						
Cash and deposits at central banks	2,192,317	-	-	-	2,192,317	2,192,317
Deposits with banks	610,574	-	-	-	610,574	610,574
Other financial assets held for trading	-	2,445,122	2,014,362	-	4,459,484	4,459,484
Financial assets at fair value through profit or loss	-	163,243	828,083	10,975	1,002,301	1,002,301
Available-for-sale financial assets	24,584 a)	3,107,453	5,254,876	144,687	8,531,600	8,531,600
Loans and advances to banks	7,221,021	-	776,786	-	7,997,807	7,997,807
Loans and advances to customers	48,299,452	-	679,395	-	48,978,847	48,169,548
Held-to-maturity investments	2,541,829	-	-	-	2,541,829	2,455,350
Derivatives for risk management purposes	-	-	455,115	-	455,115	455,115
Financial assets	**60,889,777**	**5,715,818**	**10,008,617**	**155,662**	**76,769,874**	**75,874,096**
Deposits from central banks	3,817,643	-	-	-	3,817,643	3,817,643
Financial liabilities held for trading	-	-	1,561,143	-	1,561,143	1,561,143
Deposits from banks	6,348,934	-	546,786	-	6,895,720	6,917,865
Due to customers	23,874,139	-	1,572,311	-	25,446,450	25,446,450
Debt securities issued	19,886,462	-	13,214,637	-	33,101,099	33,066,534
Derivatives for risk management purposes	-	-	253,148	-	253,148	253,148
Subordinated debt	2,416,344	-	222,727	-	2,639,071	2 499,429
Financial liabilities	**56,343,522**	**-**	**17,370,752**	**-**	**73,714,274**	**73,562,212**
Balance as at 31 December 2008						
Cash and deposits at central banks	2,027,318	-	-	-	2,027,318	2,027,318
Deposits with banks	664,410	-	-	-	664,410	664,410
Other financial assets held for trading	-	1,616,331	2,073,831	-	3,690,162	3,690,162
Financial assets at fair value through profit or loss	-	890,599	1,260,201	11,013	2,161,813	2,161,813
Available-for-sale financial assets	43,867 a)	2,647,803	4,272,854	129,587	7,094,111	7,094,111
Loans and advances to banks	4,498,348	-	33 635	-	4,531,983	4,531,983
Loans and advances to customers	45,583,775	-	1,465,699	-	47,049,474	47,494,261
Held-to-maturity investments	2,160,196	-	-	-	2,160,196	2,069,162
Derivatives for risk management purposes	-	-	936,290	-	936,290	936,290
Financial assets	**54,977,914**	**5,154,733**	**10,042,510**	**140,600**	**70,315,757**	**70,669,510**
Deposits from central banks	4,810,458	-	-	-	4,810,458	4,810,458
Financial liabilities held for trading	-	-	1,914,423	-	1,914,423	1,914,423
Deposits from banks	5,626,103	-	2,055,635	-	7,681,738	7,681,738
Due to customers	26,066,271	-	320,483	-	26,386,754	26,386,754
Debt securities issued	18,176,968	-	6,419,714	-	24,596,682	23,736,882
Derivatives for risk management purposes	-	-	727,475	-	727,475	727,475
Subordinated debt	2,020,684	-	808,299	-	2,828,983	2,678,569
Financial liabilities	**56,700,484**	**-**	**12,246,029**	**-**	**68,946,513**	**67,936,299**

a) Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by non-quoted entities in relation to which no recent transactions were identified or is not possible to estimate reliably its fair value.

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

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

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

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

During 2009, there were no transfer between the different sources/ valuation models used by the Group for the valuation of assets and liabilities.

The movements of the financial assets valued based on non-observable market information, during 2009, can be analysed as follows:

in thousands of euro

Balance at the beggining of the year	**140,600**
Acquisitions	24,120
Disposals [a)]	(8,653)
Changes in value	(405)
Balance at the end of the year	**155,662**

a) Following the acquisitions performed in 2009, Ydreams and Aquaspy became to be consolidated by the equity method (see Note 2).

The main assumptions and inputs used during the years ended 2009 and 2008 in the valuation models are presented as follows:

Interest rate curves

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

%

	31.12.2009			31.12.2008		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	0.2500	0.0750	0.3700	2.0000	0.1250	1.5000
1 month	0.4000	0.4200	0.5800	2.6950	0.9500	2.2500
3 months	0.5000	0.4700	0.6600	2.9450	1.7500	2.7800
6 months	0.9300	0.6800	0.9300	3.0100	2.0000	2.8200
9 months	1.0900	0.9000	1.0300	3.0450	2.2500	2.8800
1 year	1.3155	0.6480	0.9960	2.6790	1.2100	2.0090
3 years	2.2700	2.0120	2.6560	2.9260	1.6850	2.8930
5 years	2.8050	2.9300	3.3900	3.2360	2.0770	3.1891
7 years	3.2130	3.4680	3.7650	3.4630	2.2780	3.3541
10 years	3.5980	3.9220	4.0880	3.7350	2.4740	3.4850
15 years	3.9700	4.3130	4.3670	3.8980	2.6750	3.7091
20 years	4.0700	4.4270	4.3600	3.8450	2.7085	3.6216
25 years	4.0210	4.4630	4.2925	3.6730	2.6670	3.4716
30 years	3.9520	4.4790	4.2170	3.5400	2.6310	3.3591

Credit spreads

The credit spreads used by the Group on the valuation of the credit derivatives are disclosed on a daily basis by Markit representing observations constituted for around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spreads behavior in the market throughout the year, is presented as follows:

basis points

Index	Series	1 year	3 years	5 years	7 years	10 years
Year 2009						
CDX USD Main	13	61.06	81.07	84.29	92.00	106.75
iTraxx Eur Main	12	-	45.61	73.52	82.85	92.43
iTraxx Eur Senior Financial	12	-	-	72.97	-	86.24
Year 2008						
CDX USD Main	11	241.88	228.50	197.54	164.67	148.71
iTraxx Eur Main	10	-	201.61	177.50	161.00	150.71
iTraxx Eur Senior Financial	10	-	-	118.79	-	119.00

Interest rate volatility

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

%

	31.12.2009			31.12.2008		
	EUR	USD	GBP	EUR	USD	GBP
1 year	54.70	95.83	68.30	43.99	79.02	81.40
3 years	40.50	57.99	48.40	33.03	59.69	45.60
5 years	32.00	42.78	36.20	27.26	47.94	33.30
7 years	26.40	36.00	29.50	23.94	41.54	26.80
10 years	21.70	30.52	24.00	21.12	36.03	22.10
15 years	18.29	26.16	19.50	19.37	29.84	18.00

Exchange rate and volatility

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

			Volatility (%)				
Exchange Rates	**31.12.2009**	**31.12.2008**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.4406	1.3917	10.91	12.15	12.83	12.96	13.10
EUR/GBP	0.8881	0.9525	8.76	10.45	11.50	11.98	12.45
EUR/CHF	1.4836	1.4850	5.16	4.70	4.85	4.85	4.85
EUR/NOK	8.3000	9.7500	8.00	8.75	8.85	8.85	8.90
USD/BRL [a)]	1.7432	2.3307	12.75	13.55	14.55	15.05	15.55
USD/TRY [b)]	1.4957	1.5440	10.00	12.50	13.63	14.63	15.25

a) Calculation based in EUR/USD and EUR/BRL exchange rates.
b) Calculation based in EUR/USD and EUR/TRY exchange rates.

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

Equity index

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

	Quote			Historical volatility		Implied volatility
	31.12.2009	**31.12.2008**	**change %**	**1 month**	**3 months**	
DJ Euro Stoxx 50	2,965	2,448	21	15.49	21.33	20.96
PSI 20	8,464	6,341	33	14.31	17.28	-
IBEX 35	11,940	9,196	30	15.98	19.04	-
FTSE 100	5,413	4,434	22	14.83	18.39	18.56
DAX	5,957	4,810	24	14.35	21.33	20.05
S&P 500	1,115	903	23	10.12	15.97	17.03
BOVESPA	68,588	37,550	83	17.13	27.88	27.07

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

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

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

Loans and advances to customers

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

Held-to-maturity investments

The fair values of these financial instruments are based on quoted market prices, when available. For unlisted securities the fair value is estimated by discounting the expected future cash-flows.

Deposits from central banks and Deposits from banks
Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

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

Debt securities issued and Subordinated debt
The fair value of these instruments is based on market prices, when available. When not available, the Group estimates its fair value by discounting the expected future cash-flows.

NOTE 44 – RISK MANAGEMENT

A qualitative outlook of the risk management at the Group is presented bellow:

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

Credit risk
Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk). Regarding credit default swaps, the net exposure between selling and buying positions in relation to each reference entity, is also considered as credit risk to the Group. The credit default swaps are accounted for at fair value in accordance with the accounting policy described in Note 2.4.

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

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

BES Group credit risk exposure is analysed as follows:

in thousands of euro

	31.12.2009	31.12.2008
Deposits with banks	10,582,103	6,973,732
Financial assets held for trading	4,388,925	3,672,125
Financial assets at fair value through profit or loss	780,466	1,324,543
Available-for-sale financial assets	5,291,755	4,968,576
Loans and advances to customers	48,978,847	47,049,474
Held-to-maturity investments	2,541,829	2 160,196
Derivatives for risk management purposes	455,115	936,290
Other assets	464,584	493,407
Guarantees granted	6,983,166	6,426,610
Stand by letters of credit	3,016,076	2,127,792
Irrevocable commitments	5,338,345	4,586,554
Credit risk associated to the credit derivatives reference entities	393,163	581,915
	89,214,374	**81,301,214**

The analysis of the risk exposure by sector of activity, as at 31 December 2009 and 2008, can be analysed as follows:

in thousands of euro

	31.12.2009								
	Loans and advances to customers		**Financial assets held or trading**	**Other financial assets as at fair value through profit or loss**	**Available-for-sale financial assets**		**Held-to-maturity investments**		**Guarantees granted**
	Gross amount	**Impairment**			**Gross amount**	**Impairment**	**Gross amount**	**Impairment**	
Agriculture	582,861	(20,320)	3,182	-	16,638	(3,562)	-	-	30,277
Mining	515,579	(6,068)	7,311	-	6,006	-	-	-	24,469
Food, beverage na tobacco	890,181	(19,120)	17,371	-	40,142	(64)	4,302	-	106,435
Textiles	382,478	(57,980)	3,994	-	21,450	(2,453)	-	-	23,872
Shoes	100,154	(4,247)	738	-	500	(616)	-	-	3,312
Wood and cork	178,899	(20,771)	1,586	-	-	-	-	-	5,354
Priting and publishing	286,052	(6,469)	6,428	-	125,731	-	-	-	39,842
Refining and oil	40,677	(267)	1,090	-	218	-	-	-	5,749
Chemicals and rubber	584,284	(19,597)	14,948	-	56,555	(10,366)	13,118	-	67,091
Non-metalic minerals	519,879	(17,103)	1,247	-	5,014	-	-	-	51,438
Metalic products	623,148	(23,313)	5,451	-	10,345	-	-	-	94,650
Production of machinery, equipment and electric devices	359,306	(33,996)	2,454	1,994	7,844	(783)	17,936	-	209,995
Production of transport material	140,082	(4,410)	1,627	-	2,373	(38)	24,180	-	80,658
Other transforming industries	524,781	(20,836)	973	-	15,057	(12,087)	-	-	18,241
Electricity, gas and water	1,428,411	(11,469)	30,861	3,714	395,640	-	17,443	-	429,729
Construction	5,142,994	(175,183)	119,430	-	102,618	(2,253)	-	-	1,804,897
Wholesale and retail	3,251,094	(167,646)	20,300	-	148,337	(13,474)	5,333	-	573,865
Tourism	1,315,727	(27,546)	13,516	-	8,312	(463)	-	-	72,520
Transports and communications	2,355,878	(61,438)	200,742	-	1,217,662	(4)	143,083	-	632,175
Financial activities	2,223,376	(89,152)	1,360,458	875,292	2,546,467	(48,291)	1,296,763	(20,584)	214,248
Real estate activities	5,201,380	(176,493)	36,698	-	309,760	(1,672)	-	-	589,303
Services provided to companies	4,376,173	(90,197)	52,482	9	1,052,914	(31,771)	-	-	1,154,893
Public services	960,993	(11,041)	2,402,121	-	2,105,458	-	583,578	-	97,342
Non-profit organisations	4,035,966	(113,932)	150,413	111,358	458,810	(9,986)	448,725	(13,981)	522,702
Mortgage loans	11,352,578	(212,533)	-	-	-	-	-	-	39
Consumers loans	2,817,309	(155,918)	-	-	-	-	-	-	127,619
Other	340,914	(5,262)	4,063	9,934	15,639	(7)	21,933	-	2,451
TOTAL	**50,531,154**	**(1,552,307)**	**4,459,484**	**1,002,301**	**8,669,490**	**(137,890)**	**2,576,394**	**(34,565)**	**6,983,166**

in thousands of euro

	31.12.2008								
	Loans and advances to customers		Financial assets held or trading	Other financial assets as at fair value through profit or loss	Available-for-sale financial assets		Held-to-maturity investments		Guarantees granted
	Gross amount	Impairment			Gross amount	Impairment	Gross amount	Impairment	
Agriculture	619,580	(20,317)	4,576	-	1,761	-	-	-	24,541
Mining	359,339	(5,221)	3,463	-	281	-	-	-	48,104
Food, beverage na tobacco	762,750	(14,613)	14,709	-	54,323	(52)	4,306	-	97,878
Textiles	376,939	(30,625)	9,171	-	22,908	(2,238)	-	-	26,444
Shoes	70,889	(5,150)	1,037	-	499	(499)	-	-	2,995
Wood and cork	178,445	(12,277)	3,521	-	3,038	-	-	-	6,604
Priting and publishing	236,259	(5,550)	2,188	-	81,768	-	-	-	40,228
Refining and oil	59,776	(71)	-	-	-	-	-	-	3,004
Chemicals and rubber	601,760	(11,068)	15,565	-	46,109	(5)	13,119	-	70,888
Non-metalic minerals	437,653	(11,074)	1,557	-	8,507	-	-	-	47,504
Metalic products	543,708	(13,796)	7,083	-	8,014	-	-	-	68,111
Production of machinery, equipment and electric devices	205,226	(5,261)	1,474	1,981	7,399	(770)	15,467	-	180,668
Production of transport material	219,522	(5,089)	238,693	-	17,360	-	43,825	-	76,320
Other transforming industries	462,177	(12,772)	1,186	-	3,529	(815)	-	-	15,560
Electricity, gas and water	1,203,185	(7,784)	14,921	-	349,565	-	12,591	-	306,905
Construction	5,713,410	(144,439)	172,730	-	326,774	(1,811)	-	-	1,582,880
Wholesale and retail	3,316,622	(119,655)	26,043	-	140,307	(11,600)	14,645	-	456,361
Tourism	1,273,092	(19,750)	11,874	-	8,905	(376)	-	-	68,346
Transports and communications	1,838,176	(23,733)	15,659	-	1,033,744	(13,719)	122,573	-	578,606
Financial activities	2,366,400	(32,740)	1,377,402	2,063,622	1,821,060	(33,829)	900,611	-	501,638
Real estate activities	5,139,037	(116,195)	67,173	-	3,546	(968)	-	-	435,895
Services provided to companies	4,950,870	(84,602)	12,082	20	905,480	(13,488)	2,352	-	985,675
Public services	686,795	(9,663)	1,553,579	-	1,888,951	-	504,424	-	45,849
Non-profit organisations	1,778,211	(49,890)	5,046	55,211	243,634	(24,462)	451,389	-	154,115
Mortgage loans	11,020,282	(231,146)	-	-	-	-	-	-	-
Consumers loans	2,801,981	(129,859)	-	-	-	-	-	-	119,250
Other	975,455	(25,725)	129,430	40,979	222,809	(1,528)	74,894	-	482,241
TOTAL	**48,197,539**	**(1,148,065)**	**3,690,162**	**2,161,813**	**7,200,271**	**(106,160)**	**2,160,196**	**-**	**6,426,610**

As at 31 December 2009, the analysis of the loan portfolio by rating is as follows:

in millions of euro

Rating/Scoring models	Internal scale	31.12.2009		31.12.2008	
		Credit amount	(%)	Credit amount	(%)
Large companies	[aaa;a-]	1,424	2.82%	1,042	2.16%
	[bbb+;-bbb-]	1,710	3.38%	1,969	4.09%
	[bb+;bb-]	5,705	11.29%	6,579	13.65%
	[b+;b-]	8,573	16.97%	7,268	15.08%
	ccc+	859	1.70%	370	0.77%
Medium enterprises	8-9	233	0.46%	317	0.66%
	10-11	410	0.81%	499	1.04%
	12-13	751	1.49%	868	1.80%
	14-15	823	1.63%	1,053	2.18%
	16-17	938	1.86%	941	1.95%
	18-19	628	1.24%	419	0.87%
	20-21	730	1.44%	329	0.68%
	22-23	351	0.69%	234	0.49%
	24-25	765	1.51%	450	0.93%
Small enterprises	A	180	0.36%	144	0.30%
	B	503	1.00%	654	1.36%
	C	930	1.84%	1,134	2.35%
	D	499	0.99%	376	0.78%
	E	318	0.63%	200	0.41%
	F	427	0.84%	455	0.94%
Mortgage loans	01	1,161	2.30%	939	1.95%
	02	2,762	5.47%	2,596	5.39%
	03	2,110	4.18%	2,170	4.50%
	04	1,271	2.52%	1,330	2.76%
	05	807	1.60%	794	1.65%
	06	626	1.24%	553	1.15%
	07	1,452	2.87%	1,606	3.33%
	08	180	0.35%	145	0.30%
Private individuals	01	95	0.19%	107	0.22%
	02	114	0.23%	152	0.32%
	03	184	0.36%	253	0.52%
	04	332	0.66%	398	0.83%
	05	310	0.61%	301	0.62%
	06	199	0.39%	200	0.41%
	07	158	0.31%	167	0.35%
	08	196	0.39%	147	0.30%
	09	310	0.61%	258	0.54%
	10	18	0.04%	6	0.01%
No internal rating/scoring loans		**11,489**	**22.73%**	**10,775**	**22.36%**
Total		**50,531**	**100.00%**	**48,198**	**100.00%**

Market risk

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

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

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

in thousands of euro

	31.12.2009				31.12.2008			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange Risk	24,192	28,728	33,491	21,798	25,010	22,399	25,010	10,957
Interest rate risk	12,689	19,963	15,148	21,182	32,576	13,339	32,576	9,081
Shares and commodities	16,647	21,800	33,087	10,317	9,237	16,903	9,237	17,468
Diversification effect	-20,959	-25,475	-25,619	-21,964	-19,565	-19,010	-19,565	-15,869
Total	**32,569**	**45,016**	**56,107**	**31,333**	**47,258**	**33,631**	**47,258**	**21,637**

Group has a VaR of euro 32,569 thousands (31 December 2008: euro 47,258 thousands), for its trading positions.

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

in thousands of euro

	31.12.2009							31.12.2008						
	Elegible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Elegible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	218,596	218,596	-	-	-	-	-	249,979	249,979	-	-	-	-	-
Loans and advances to banks	10,363,962	-	9,894,709	137,973	131,784	199,496	-	6,664,000	-	6,068,883	133,394	46,625	315,098	100,000
Loans and advances to customers	49,354,877	-	33,417,961	11,124,973	2,288,567	1,998,350	525,026	47,268,054	-	30,726,899	12,029,681	2,251,833	1,641,902	617,739
Securities	14,566,218	3,536,116	7,734,590	2,383,996	611,382	242,678	57,456	12,247,173	2 231 304	7,134,649	1,284,572	986,449	390,786	219,413
Off balance sheet			592,134	(36,325)	(53,159)	(420,500)	(75,251)			525,134	42,575	5 000	(474,459)	(84,134)
Total			**51,639,394**	**13,610,617**	**2,978,574**	**2,020,024**	**507,231**			**44,455,565**	**13,490,222**	**3,289,907**	**1,873,327**	**853,018**
Deposits from banks	10,991,389	-	7,448,271	1,649,238	1,324,381	328,539	240,960	12,766,432	-	10,365,069	1,422,665	119,480	648,218	211,000
Due to customers	24,044,655	-	19,931,669	1,312,377	1,682,586	1,053,858	64,165	23,859,913	-	21,189,716	1,415,168	1,179,271	9,467	66,291
Repo´s with clients	783,354	-	782,959	-	-	-	395	1,822,323	-	1,488,451	112,490	218,465	1,941	976
Debt securities issued and subordinated debt	35,315,641	-	19,873,934	1,606,511	1,489,320	8,975,999	3,369,877	28,309,897	-	16,741,037	513,329	436,904	6,563,742	4 054,885
Preference shares	600,000	-	-	-	-	600,000	-	600,000	-	-	-	-	-	600,000
Off balance sheet			5,456,692	1,150,421	(1,591,216)	(4,160,395)	(833,545)			5,627,638	562,738	9,783	(4,579,317)	(1,643,267)
Total			**53,493,525**	**5,718,547**	**2,905,071**	**6,798,001**	**2,841,852**			**55,411,911**	**4,026,390**	**1,963,903**	**2,644,051**	**3,289,885**
GAP (assets - liabilities)			**(1,854,131)**	**7,892,070**	**73,503**	**(4,777,977)**	**(2,334,621)**			**(10,956,346)**	**9,463,832**	**1,326,004**	**(770,724)**	**(2,436,867)**

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

in thousands of euro

	31.12.2009				31.12.2008			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At 31 December	303,566	(303,566)	164,981	(164,981)	42,845	(42,845)	40,083	(40,083)
Average for the year	175,241	(175,241)	103,011	(103,011)	62,192	(62,192)	45,530	(45,530)
Maximum for the year	303,566	(303,566)	164,981	(164,981)	84,768	(84,768)	52,886	(52,886)
Minimum for the year	31,053	(31,053)	25,887	(25,887)	42,845	(42,845)	40,083	(40,083)

The following table presents the average balances, interests and interest rates in relation to the Group's major assets and liabilities categories, for the years ended 31 December 2009 and 2008:

in thousands of euro

	31.12.2009			31.12.2008		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Monetary assets	8,615,032	190,614	2.21%	8,379,583	289,964	3.46%
Loans and advances to customers	48,578,733	2,195,255	4.52%	45,657,828	2,904,887	6.36%
Securities	10,654,732	551,017	5.17%	7,750,462	574,589	7.41%
Differencial applications	169,458	-	-	-	-	-
Financial Assets	**68,017,955**	**2,936,886**	**4.32%**	**61,787,873**	**3,769,440**	**6.10%**
Monetary liabilities	12,187 408	276,057	2.27%	10,309,560	497,563	4.83%
Due to consumers	24,515,188	463,655	1.89%	22,715,410	696,720	3.07%
Other	31,315,359	996,359	3.18%	28,720,941	1,488,988	5.18%
Differencial resources	-	-	-	41,962	-	-
Financial Liabilities	**68,017,955**	**1,736,071**	**2.55%**	**61,787,873**	**2,683,271**	**4.34%**
Net interest income		**1,200,815**	**1.77%**		**1,086,169**	**1.76%**

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2009 and 2008, is analysed as it follows:

in thousands of euro

		31.12.2009				31.12.2008			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	United States Dollars.	(2,172,498)	2,585,683	(16,407)	396,778	(3,791,015)	4,064,237	8,966	282,188
GBP	Great Britain Pounds	(866,330)	883,392	(9,093)	7,969	(1,150,808)	1,066,053	33,779	(50,976)
BRL	Brazilian real	1,009,280	-	19,957	1,029,237	456,111	(58,636)	(67,828)	329,647
DKK	Danish Krone	348,280	(300,667)	-	47,613	36,899	(3,773)	-	33,126
JPY	Japanese yene	(192,032)	240,008	(146,870)	(98,894)	(213,029)	277,067	(20,843)	43,195
CHF	Swiss franc	(160,196)	163,805	1,031	4,640	66,484	(56,229)	(62,401)	(52,146)
SEK	Swedish krona	85,773	(88,666)	15,909	13,016	24,020	(25,577)	5,227	3,670
NOK	Norwegian krone	(916)	(1,385)	74,699	72,398	(8,362)	(7,542)	22,017	6,113
CAD	Canadian Dollar	2,151	369	2,399	4,919	383	1,193	(203)	1,373
ZAR	Rand	(2,342)	-	10	(2,332)	(1,633)	685	(51)	(999)
AUD	Australian Dollar	180,233	(175,561)	40,816	45,488	37,270	(29,892)	14	7,392
AOA	Kwanza	(37,771)	-	-	(37,771)	17,601	-	-	17,601
CZK	Czech koruna	(14,719)	18,585	(1,878)	1,988	(26,601)	27,907	(17,039)	(15,733)
	Other	157,325	(127,593)	138,200	167,932	52,951	12,061	(4,597)	60,415
		(1,663,762)	**3,197,970**	**118,773**	**1,652,981**	**(4,499,729)**	**5,267,554**	**(102,959)**	**664,866**

Note: asset / (liability).

Liquidity risk

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

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Further information regarding Group strategy is included in the management report.

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

For the purposes of liquidity management, the following elements are considered:

in thousands of euro

	31.12.2009	31.12.2008
Cash and deposits with banks	10,594	6,716
Short term deposits from banks	(8,929)	(10,559)
Treasury Gap [1]	**1,665**	**(3,843)**
Securities acceptable as collateral	9,264	8,710
Securities used as at 31 December	(2,000)	(1,400)
Treasury Gap II	**8,929**	**3,467**

1) Treasury Gap - immediate liquidity and short term interbank loans deducted to interbank debt up to one year. Considering the financing needs, the treasury gap indicates liquidity levels over what the group needs.

As at 31 December 2009, the treasury Gap was positive in the amount of euro 1,665 million. Additionally, the Group had securities eligible for rediscount, namely at the European Central Bank or at the repos market, in the amount of euro 9,264 million. From this amount, euro 2,000 million were utilised as at 31 December 2009, being available in one year.

In addition, the Group calculates the liquidity ratios in accordance with the Bank of Portugal rules. During 2009 a new instrution for liquidity report was issed (Instrution 13/2009), being the indicators calculated different from the old instruction nº1/2001, reason why are not presented corporative figures for December 2008:

in millions of euro

	31.12.2009
Accumulated mismatch [1]	(4,069)
Net assets buffer [2]	3,890
Liquidity position	(179)
Other assets acceptable as collateral	1,572
Global liquidity	**1,393**

(1) Accumulated mismatch corresponds to the diference between assets and liabilities with maturity date less than one year.
(2) The net assets buffer reflects the assets with maturity over one year that can be given as collateral to obtain liquidity, namelly assets that can be given as collateral on loan operations with Central Banks (less haircuts), excluding those assets which are being used as collateral for loan operations with maturity of over one year.

As at 31 December 2009, the treasury Gap was positive in the amount of euro 1,393 millions.

in millions of euro

	31.12.2009						
	Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
ASSETS							
Cash and deposits with banks	433	433	-	-	-	-	-
Loans and advances to banks and central banks	10,364	8,395	1,325	177	136	124	207
Loans and advances to customers	49,354	516	856	1,821	1,720	2,886	41,555
Securities*	15,098	328	759	593	895	1,227	11,296
Other assets, net	2,054	2,054	-	-	-	-	-
Off-balance sheet items (Commitments and Derivatives)	3,302	69	180	337	255	815	1,646
Total		**11,795**	**3,120**	**2,928**	**3,006**	**5,052**	**54,704**
LIABILITIES							
Deposits from banks, central banks and other loans	11,774	3,732	2,776	797	464	2,424	1,581
Due to customers	24,045	262	376	1,256	179	(543)	22,515
Debt securities issued	35,315	1,608	1,959	5,902	3,764	1,784	20,298
Other short-term liabilities	1,132	1,132	-	-	-	-	-
Off-balance sheet items (Commitments and Derivatives)	25,484	201	239	436	426	796	23,386
Total		**6,935**	**5,350**	**8,391**	**4,833**	**4,461**	**67,780**
GAP (Assets - Liabilities)		**4,860**	**(2,230)**	**(5,463)**	**(1,827)**	**591**	**(13,076)**
Accumulated GAP		**4,860**	**2,630**	**(2,833)**	**(4,660)**	**(4,069)**	**(17,145)**
Buffer > 12 months						**3,890**	

* This caption includes securities held by the Group which can be rediscounted with the ECB for liquidity purposes.

This table includes the amounts of assets, liabilities and off-balance sheet items with defined or determinate cash-flows classified by the period to maturity. In case no maturity is defined (as is for deposits, overdrafts, current accounts and commitments with third parties), the Group used behaviour model based on historical information, which reflect the expected maturity of the cash-flows. For the deposits with stated maturity, the Group also used also a behaviour model to estimate the expected maturity.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviors, information systems and external events.

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

Capital management and solvability ratio

The main goals from capital management are (i) to allow the adequate growth of activities through the generation of enough capital to support the increase of assets, (ii) fulfillment of the minimum requirements defined by the supervision authorities in terms of capital adequacy and (iii) to ensure the fulfillment of the Groups strategic goals in respect to capital adequacy matters.

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

The Group is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the prudential rules to be attended by the institutions under its supervision. These rules determine a minimum solvability ratio in relation to the requirements of the assumed risks that institutions have to fulfill.

In the scope of the implementation of the new capital accord Basel II, and using the permission granted by the new prudential regime established by Decree-Law 103/2007 and Decree-Law 104/2007, the Group was authorized to use, starting 31 March 2009, the approach based in the use of internal models for credit risks (Foundation Internal Rating Based Approach – IRBF) for credit risk and the Standardized Approach – TSA) for operational risk.

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

- Basic Own Funds (BOF): This category includes the realized capital, the eligible reserves (excluding the fair value reserves), the retained earnings of the period, minority interests and preference shares. The unrealised losses recognised under the fair value reserve and associated with equity securities, book value of goodwill, intangible assets and negative actuarial deviations from employees' benefits up to 31 December 2007 are deducted in full. From 2007, 50% of the book value of investments in banking and insurance associates over 10% also has to be deducted. Since 2009, following the application of the IRBF method for credit risk, it is also adjusted 50% of the expected losses of risk positions less any existing provisions.
- Complementary Own Funds (COF): Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value and since 2009, is also deducted 50% of the expected losses of the risk positions less any existing provisions, following the application of the IRBF method for credit risk.
- Deductions (D): Essentially incorporates the prudential amortization of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF cannot exceed the BOF. Also, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In December 2008, the Bank of Portugal issued the Notice 11/2008, establishing a transitory period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008, deducted from the expected return of the fund plan assets for the same year. As a consequence, the annual amount to be incorporated in 31 December 2009 and in the following years is euro 137 millions.

At 2009 and 2008, the main movements occurred in BOF are as follows:

in millions of euro

	31.12.2009[a]	31.12.2008 [a]
Balance as at 1 January	**3,948**	**3,953**
Capital increase	1,180	-
Retain profit for the year	325	289
Minority Interests	130	12
Changes on actuarial losses	(3)	(133)
Recognition of the impact of adopting IFRS	(12)	(20)
Deduction in connection with investments held in banking and insurance entities	(359)	69
Fair value reserves with an impact in BOF	213	(174)
Other effects	(13)	(48)
Balance as at 31 December	**5,409**	**3,948**

(a) As at December 2008, amounts expressed according to Standard Method; as at December 2009, amounts expressed according to IRB Foundation Method.

The capital adequacy of BES Group as at 31 December 2009 and 31 December 2008 is presented as follows:

in millions of euro

		31.12.2009 [a]	31.12.2008 [a]
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		4,560	3,139
Elegible reserves and retained earnings (excluding fair value reserves)		996	913
Minority Interest		284	154
Intangible assets		(122)	(125)
Changes on actuarial losses		(163)	(160)
Goodwill		(356)	(341)
Fair value reserves with an impact on BOF		(17)	(230)
Recognition of the impact of adopting IFRS		50	62
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**5,232**	**3,412**
Preference shares		600	600
Deductions in connection with investments held in banking and insurance entities		(423)	(64)
Basic own funds (Tier I)	**(A2)**	**5,409**	**3,948**
Positive fair value reserves (45%)		192	36
Eligible subordinated debt		2,095	2,366
Deductions in connection with investments held in banking and insurance entities		(354)	(64)
Complementary own funds (Tier II)		**1,933**	**2,338**
Deductions		**(12)**	**(10)**
Eligible own funds	**(A3)**	**7,330**	**6,277**
B - Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		57,426	53,791
Calculated according Notice 8/2007 (Market Risk)		4,003	2,878
Calculated according Notice 9/2007 (Operational Risk)		3,668	3,042
Risk Weighted Assets Total	**(B)**	**65,097**	**59,711**
C - Prudential Ratios			
Core Tier 1	(A1 / B)	8.0%	5.7%
Tier 1	(A2 / B)	8.3%	6.6%
Solvency Ratio	**(A3 / B)**	**11.3%**	**10.5%**

(a) As at December 2008, amounts expressed according to Standard Method; as at December 2009, amounts expressed according to IRB Foundation Method.

NOTE 45 – RECENTLY ISSUED PRONOUNCEMENTS

Recently issued pronouncements already adopted by the Group

In the preparation of the consolidated financial statements for the year ended 31 December 2009, the Group adopted the following standards and interpretations that are effective since 1 January 2009:

IFRS 2 (amendments) – Share based payments

The International Accounting Standards Board (IASB) issued in January 2008 an amendment to IFRS 2, which will be effective from 1 January 2009.

The amendment to IFRS 2 (i) clarified that vesting conditions are limited to service conditions and performance conditions, (ii) introduced the concept of non vesting conditions and (ii) requires that cancellations, whether by the entity or by other parties, receive the same accounting treatment.

The adoption of this standard had no impact in the Group financial statements.

IFRS 7 (amended) - Financial instruments: Disclosures

The International Accounting Standards Board (IASB) has issued in March, 2009 amendments to IFRS 7 which is applicable from 1 January 2009. The amendment requires enhanced disclosures about (i) fair value measurements, requiring disclosure of fair value measurements by level of a fair value measurement hierarchy and (ii) liquidity risk.

The impact of the adoption of this amendment resulted only in additional disclosures in the Group's financial statements.

IFRS 8 – Operating Segments

The International Accounting Standards Board (IASB) has issued on 30 November 2006 the IFRS 8 Operational segments, which was endorsed by the European Commission on 21 November, 2007. This IFRS is mandatory applicable for periods beginning on 1 January 2009.The IFRS 8 Operational segments sets out requirements for disclosures of information about an entity's operating segments. This standard specifies how an entity should disclose its information in the annual financial statements and, as a consequential amendment to IAS 34 Interim Financial Reporting, regarding the information to be disclosed in the interim financial reporting. Each entity should also provide a description of the segmental information disclosed namely income statement and of segment assets, as well as a brief description of how the segmental information is produced.

The impact of the adoption of this amendment resulted only in additional disclosures in the Group's financial statements.

IAS 1 (amended) – Presentation of Financial Statements

The International Accounting Standards Board (IASB) has issued in September 2007, IAS 1 (amendment) Presentation of Financial Statements, which is applicable from 1 January, 2009.

IAS 1 (amended) requires financial information to be presented in the financial statements based on the nature of the underlying transactions and introduces the statement of 'comprehensive income'.

The Board's objectives in this project are to present information in ways that improve the ability of investors, creditors, and other financial statement users to distinguish between transactions with shareholders, in their capacity as shareholders (e.g. dividends, treasury shares), and transactions with third parties, which will be summarised in a statement of 'comprehensive income'.

In addition, where entities restate or reclassify comparative information, namely as a consequence of the adoption of a new accounting standard, they will be required to present a restated balance sheet as at the beginning of the comparative period presented in the financial statements.

The adoption of this amendment had impact only in terms of the presentation of the Group financial statements.

IAS 23 (amended) – Borrowing Costs

The International Accounting Standards Board (IASB) has issued in March, 2007 an amendment to IAS 23 Borrowing costs, which is applicable from 1 January, 2009. This standard requires the capitalization of borrowing costs that are directly attributable to the acquisition, production or construction of a qualifying asset, as part of the cost of that asset. As a result, the option to recognise such borrowing costs as an expense in the period which they arise was eliminated. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The adoption of this standard had no impact in the Group financial statements.

IAS 32 – Financial Instruments: presentation – Puttable financial instruments and obligations arising on liquidation

International Accounting Standards Board (IASB) issued, in February 2008, an amendment to IAS 32 Financial Instruments: Presentation - Puttable financial instruments and obligations arising on liquidation, effective from 1 January 2009. This amendment addresses the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. Under the current requirements of IAS 32, if an issuer can be required to pay cash or another financial asset in return for redeeming or repurchasing a financial instrument, the instrument is classified as a financial liability. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity if they have certain features, namely (i) they represent the last residual interest in the net assets of the entity, (ii) the instrument is in the class of instruments that is subordinate to all other classes of instruments of the entity and (iii) all financial instruments in that class of instruments that is subordinate to have identical features. The Board also amended IAS 1 Presentation of Financial Statements to add new disclosure requirements relating to puttable instruments and obligations arising on liquidation.

The adoption of this standard had no impact in the Group financial statements.

IFRIC 13 –Customer Loyalty Programmes

The IFRIC 13 Customer Loyalty Programmes was issued on 28 June, 2007 and will be effective from 1 July, 2008. As a result, it will only be relevant for the Group from 1 January, 2009. This interpretation addresses how companies, that grant their customers loyalty award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points

The adoption of this standard had no impact in the Group financial statements.

IFRIC 15 - Agreements for construction of real estates

The IFRIC 15 Agreements for construction of real estates is effective for periods beginning on or after 1 January 2009. This interpretation clarifies whether IAS 18 Revenue or IAS 11 Construction contracts should be applied to particular transactions and will likely result in IAS 18 being applied to a wider range of transactions.

The adoption of this standard had no impact in the Group financial statements.

IFRIC 16 - Hedges of a net investment in a foreign operation

The IFRIC 16 Hedges of a net investment in a foreign operation is effective for periods beginning on or after 1 October 2008. This interpretation clarifies that:

- net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal or less than the net assets of the foreign operation;
- the hedging instrument may be held by any entity within the Group except the foreign operation that is being hedged; and
- on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to the income statement.

This interpretation allows an entity that uses the step-by-step method of consolidation, an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to the income statement on disposal of a net investment as if the direct method of consolidation had been used. This interpretation should be applied prospectively.

The adoption of this standard had no impact in the Group financial statements.

Annual Improvement Project

In May 2008, IASB published the Annual Improvement Project making certain amendments to existing standards. The main amendments arising from the Annual Improvement Project are summarised as follows:

(a) Amendment to IAS 1 Presentation of financial statements, effective on for periods beginning on or after 1 January 2009.
The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading are examples of current assets and liabilities respectively.

The adoption of this amendment had no impact on the Group financial statements.

(b) Amendment to IAS 16 Property, plant and equipment, effective on for periods beginning on or after 1 January 2009. The amendment establishes that entities whose ordinary activities comprise renting and subsequently selling assets (i) present proceeds from the sale of those assets as revenue and (ii) should transfer the carrying amount of the asset to inventories when the asset becomes held for sale.

The adoption of this amendment had no impact on the Group financial statements.

(c) Amendment to IAS 19 Employee benefits, effective for periods beginning on or after 1 January 2009. The amendment clarifies (i) the comcept of negative post service costs arising from changes on the defined benefit plan, (ii) the interaction between the expected return on plan assets and the plan administration costs and (iii) the distinction between short-term and long-term employee benefits.

The adoption of this amendment had no impact on the Group financial statements.

(d) Amendment to IAS 20 Accounting for government grants and disclosure of government assistance, effective on for periods beginning on or after 1 January 2009. This amendment establishes that the benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 Financial instruments: recognition and measurement and the proceeds received with the benefit accounted for in accordance with IAS 20.

The adoption of this amendment had no impact on the Group financial statements.

(e) Amendment to IAS 23 Borrowing costs, effective for periods beginning on or after 1 January 2009. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 Financial instruments: recognition and measurement. This eliminates the inconsistency of terms between IAS 39 and IAS 23.

The adoption of this amendment had no impact on the Group financial statements.

(f) Amendment to IAS 27 Consolidated and separate financial statements, effective for periods beginning on or after 1 January 2009. The amendment determines that where an investment in a subsidiary that is accounted for under IAS 39 Financial instruments: recognition and measurement is classified as held for sale under IFRS 5 Non-current assets held for sale and discontinued operations, IAS 39 would continue to be applied.

The adoption of this amendment had no impact on the Group financial statements.

(g) Amendment to IAS 28 Investments in associates, effective for periods beginning on or after 1 January 2009. The amendments to IAS 28 clarified that (i) an investment in an associate is treated as a single asset for the purposes of impairment testing, (ii) any impairment loss is not allocated to specific assets included within the investment, for example, goodwill and (iii) reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases.

The adoption of this amendment had no impact on the Group financial statements.

(h) Amendment to IAS 38 Intangible assets, effective for periods beginning on or after 1 January 2009. The amendment clarifies that a pre-payment, made in the scope of advertising and promotional activities, may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The expenses shall be recognised in the income statement when the entity has the right to access the goods and the services have been received.

The adoption of this amendment had no impact on the Group financial statements.

(i) Amendment to IAS 39 Financial instruments: recognition and measurement, effective for periods beginning on or after 1 January 2009. The amendments consisted mainly in (i) clarifying that is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge, (ii) changing the definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading, clarifying that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition, (iii) changing the current guidance on documentation and effectiveness tests for hedge accounting to be applied at segment level in accordance with IFRS 8. Operating segments and (iv) clarifying that when remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, a revised effective interest rate (calculated at the date fair value hedge accounting ceases) should be used.

The adoption of this amendment had no impact on the Group financial statements.

(j) Amendment to IAS 40 Investment property, effective for periods beginning on or after 1 January 2009. Following this amendment, property that is under construction or development for future use as investment property is within the scope of IAS 40 (previously under the scope of IAS 16 Property and equipment). Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost.

The adoption of this amendment had no impact on the Group financial statements.

Recently issued pronouncements yet to be adopted by the Group

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, can be analysed as follows.

The Group will apply these standards when they are effective.

IFRS 1 (Amendment) - First-time adoption of IFRS and IAS 27 - Consolidated and separate financial statements

The amendments to IFRS 1 First-time adoption of IFR' and IAS 27, Consolidated and separate financial statements are effective for periods beginning on or after 1 July 2009.

These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.

The Group does not expect any impact on its financial statements from the adoption of these amendments.

IFRS 3 (revised) Business Combination and IAS 27 (amendment) Consolidate and Separate Financial Statements

The International Accounting Standards Board (IASB) issued in January 2008, IFRS 3 (revised) Business Combination and an amendment to IAS 27 Consolidated and Separate Financial Statements.

The main changes the revised IFRS 3 and amended IAS 27 will make to existing requirements or practice relate to (i) partial acquisitions, whereby non-controlling interests (previously named minority interest) can be measured either at fair value (implying full goodwill recognition against non-controlling interests) or at their proportionate interest in the fair value of the net identifiable assets acquired (which is the original IFRS 3 requirement); (ii) step acquisitions whereby, upon acquisition of a subsidiary and in determining the resulting goodwill, any investment in the business held before the acquisition is measured at fair value against the income statement; (iii) acquisition-related costs, which must generally, be recognised as expenses (rather than included in goodwill); (iv) contingent consideration which must be recognised and measured at fair value at the acquisition date, subsequent changes in fair value being recognised in the income statement (rather than by adjusting goodwill); and (v) changes in a parent's ownership interest in a subsidiary that do not result in the loss of control which are required to be accounted for as equity transactions.

Additionally, IAS 27 was amended to require that an entity attributes a share of the accumulated loss of a subsidiary to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance, and to specify that, upon losing control of a subsidiary, an entity measures any non-controlling interests retained in the former subsidiary at its fair value, determined at the date the control is lost.

The IFRS 3 (revised) and the amendment to IAS 27 will be effective from 1 July, 2009. The Group does not expect any impact on its financial statements from the adoption of these amendments.

IFRS 9 - Financial instruments

The International Accounting Standards Board (IASB) has issued in November, 2009 IFRS 9 - Financial instruments part 1: Classification and measurement, which is mandatory from 1 January 2013, being an earlier adoption permitted. This IFRS has not yet been adopted by the European Union.
This IFRS is included in the IASB global project to replace IAS 39 and addresses the classification and measurement of financial assets, being the main aspects:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments issued by third parties are to be measured subsequently at fair value through profit or loss. However, the entity can irrevocably elect equity instruments to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss.

The Group is evaluating the impact of adopting this interpretation on its financial statements.

IAS 39 (amendment)- Financial Instruments: recognition and measurement - Eligible hedged items

The International Accounting Standards Board (IASB) issued an amendment to IAS 39 Financial Instruments: recognition and measurement – Eligible hedged items, which is mandatory for periods beginning on or after 1 July 2009.

This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

The Group is evaluating the impact of adopting this interpretation on its financial statements.

IFRIC 12 - Service concession arrangements

The International Financial Reporting Committee (IFRIC) issued in July 2007 the IFRIC 12 – Service concession arrangements, effective 1 January 2008. Earlier application is permitted. The endorsement of this interpretation by the European Union occurred only in 2009 and therefore it is only applicable to the Group from 1 January 2010.

IFRIC 12 applies to service concession arrangements in which the public sector (i) controls or regulates the services provided by the operator and (ii) controls any significant residual interest in the infrastructure.

Due to the nature of the contracts covered by this interpretation, the Group does not expect a significant impact from its adoption.

IFRIC 17 - Distributions of non-cash assets to owners

The IFRIC 17 Distributions of non-cash assets to owners is effective on for periods beginning on or after 1 July 2009.
This interpretation clarifiaes the accounting treatment of distributions of non-cash assets to owners. This interpretation clarifies that an entity should measure the distribution of non-cash assets at the fair value of the assets to be distributed and that the difference between the fair value of the net assets distributed and the respective carrying amount in recognised in the income statement.
The Group does not expect significant impacts of adopting this interpretation on its financial statements.

IFRIC 18 – Transfers of assets from customers

The IFRIC 18 Transfers of assets from customers is effective for periods beginning on or after 1 July 2009.

This interpretation clarifies the requirements of IFER for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

The interpretation clarifies:

- the circumstances in which the definition of an asset is met;
- the recognition of the asset and the measurement of its cost on initial recognition;
- the identification of the separately identifiable services (one or more services in exchange for the transferred asset);
- the recognition of revenue; and
- the accounting for transfers of cash from customers.

The Group does not expect significant impacts of adopting this interpretation on its financial statements.

Annual Improvement Project

In May 2008, IASB published the Annual Improvement Project making certain amendments to existing standards, missing to be adopted by the Group the following amendment:

- Amendment to IFRS 5 Non-current assets held for sale and discontinued operations, effective for periods beginning on or after 1 July 2009. This amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

NOTE 46 – SUBSEQUENT EVENTS

- On January 2010, BES placed a 5 year euro 750 millions, idexed to a 3 months Euribor plus 125 b.p. notes under the Euro Medium Term Notes Programme;

- On February 2010, the Board of DIrectors of Banco Espírito Santo de Investimento, S.A and of Execution Holdings Limited, known as Execution Noble, an international investment banking group domiciled in London, announced that they have reached an agreement regarding the conditions of a recommended offer for BESI to acquire a shareholding position of 50.1%.

Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

(Banco of Portugal's Circular Letter no. 97/2008/DSB, of 3 December)

I. BUSINESS MODEL

1. Description of the Business Model

A detailed description of the Group's Business Model is provided in Item 3 of the Management Report. The main performance of the business areas (operational segments) of the Group is also presented in item 4.2 of the Management Report.

2. Strategies and Objectives

Description of the Group's strategy and objectives is provided in the Item 3 of the Management Report. The securitization transactions are detailed in item 5 of the Management report and in the Note 42 [1)].

3., 4. and 5. Activities developed and contribution to the business

Item 3 of the Management Report and Note no. 4 contain detailed information about the activity and contribution to the business.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and Nature of the Risks Incurred

Item 6 of the Management Report describes how the Risk Management function is organised within BES Group. Note 44 also contains diverse information that allows the market to gain knowledge about the risks incurred by the BES Group and the management mechanisms for their monitoring and control.

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8.,9. and 10. Qualitative and quantitative description of the results

Item 7.1.5 of the Management Report contains information regarding impacts of the financial turmoil. During the year 2009 there were no turbulent facts that could be considered to have relevant material impact on the reported period activity and results.

11. Comparison of impacts between periods

There were direct and indirect impacts on BES Group of the turbulence in 2008, which are presented initem 7.1.5 of the 2008 Management Report.

12. Decomposition of realised and not realised write-downs

The profit and loss of assets and liabilities held for trading and of assets at fair value and assets available for sale are detailed by financial instruments in Notes 7 and 8. Additionally, non realised gains and losses on assets available for sale are detailed in Notes 19 and 38, while the most significant positions are detailed in Note 19.

13. Financial turmoil and the price of the BES share

Item 2.4 of the 2009 Management Report presents the BES share price performance, which was in line with the financial sector performance in general and was influenced by the share capital increase in April 2009.

14. Maximum loss risk

Item 6 the Management Report and Note 44 contains the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 43 contains information on the impact of debt revaluation and the methods used to calculate their impact on the results.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

1) The numbering refers to the Notes to the Consolidated Financial Statements

18. Information about the Group's exposures

Items 5, 6 and 7 of the Management Report contain information on exposures affected by the turmoil period. The information released in these notes is considered to be sufficient, taking into consideration the detail and quantitative information presented and the fact that during the year 2009 there were no turbulent events. Instead there was a gradual evolution to normalization.

19. Movement in exposures between periods

The explanatory notes, namely Note 44, contain diverse information comparing the exposures and results in 2008 and 2009. The disclosed information is considered sufficient, given the detail and quantitative information presented as well as the fact that during the year 2009 there were no events with material relevance.

20. Non consolidated exposures

All the operations related securitisation structures originated by the Group are presented in Note 42. None of the SPEs were consolidated due to the market turbulence.

21. Exposure to monolines insurers and quality of the assets insured

The Group does not have exposures to monolines insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Main accounting policies.

23. Special Purpose Entities (SPEs) and consolidation

Disclosure regarding these is available in Notes 2 and 42.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this annex. Notes 2 and 43 refer to the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

The BES Group, within the context of accounting and financial information disclosure, aims to satisfy all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities. At the same time, the Group aims to meet the best market practice in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholders, clients, employees, supervisory entities and the public in general, we highlight the Management Report, the Financial Statements and the respective Notes, the Corporate Governance Report and the Social Responsibility Report. The financial statements, released on a quarterly basis, are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks. The Corporate Governance Report and the Social Responsibility Report also provide a detailed view about the governing structure of the Group and the Social Responsibility assumed in light of numerous challenges that the modern world faces, from the environmental, to social, to innovation and entrepreneurship.

In addition, the Group establishes regular contacts with the stakeholders, mainly when releasing quarterly results, organising the Strategy Day on an annual basis and during the roadshows. Whenever necessary, the Group promptly releases relevant facts, in addition to the news flow through the media.

03 Auditors’ Report on the Consolidated Financial Statements

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.
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AUDITORS’ REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

(This report is a free translation to English from the original Portuguese version)

Introduction

1. In accordance with the applicable legislation, we present our Audit Report on the financial information included in the Report of the Board of Directors and in the accompanying consolidated financial statements as at and for the year ended 31 December 2009, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2009 (showing total consolidated assets of Euro 82,297,200 thousand and total equity attributable to the equity holders of the Bank of Euro 6,655,326 thousand, including a net profit attributable to the equity holders of the Bank of Euro 522,114 thousand), the consolidated statements of income, of comprehensive income, of cash flows and of changes in equity for the year then ended, and the corresponding notes to the accounts.

Responsibilities

2. The Board of Directors is responsible for:

a) the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, that present fairly, the consolidated financial position of the Bank, the consolidated results of its operations, its comprehensive income, its consolidated changes in equity and its consolidated cash flows;

b) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code (“Código dos Valores Mobiliários”);

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

e) the communication of any relevant matter that may have influenced the activity of the bank and its subsidiaries, their financial position or results.

3. Our responsibility is to verify the consolidated financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the “Código dos Valores Mobiliários”, in order to issue a professional and independent opinion based on our audit.

Scope

4. We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:

- verification that the financial statements of the companies included in the consolidation have been properly audited and, in those significant cases in which they were not, verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
- verification of the consolidation procedures and of the application of the equity method;
- evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
- assessing the applicability of the going concern basis of accounting;
- assessment of the appropriateness of the overall presentation of the financial statements; and
- assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the consolidated financial information included in the Report of the Board of Directors is consistent with the consolidated financial statements presented.

6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the consolidated financial statements referred to above present fairly in all material respects the consolidated financial position of **Banco Espírito Santo, S.A.** as at 31 December 2009, the consolidated results of its operations, consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 4 March 2010

KPMG & Associados, SROC, S.A.
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes
(ROC N.º 1131)

BANCO ESPIRITO SANTO

CONSELHO DE ADMINISTRAÇÃO
Comissão de Auditoria
Av. da Liberdade, 195-13º
1250-142 Lisboa

REPORT OF THE AUDIT COMMITTEE FOR THE YEAR 2009

To the Shareholders of
Banco Espírito Santo, S.A.,

As required by the Portuguese law, we present our Report which comprises a summary of the activity performed by the *Comissão de Auditoria* (Audit Committee) during the year 2009 and our opinion on the Annual Report of the Board of Directors and the related unconsolidated and consolidated financial statements prepared by the Management of **Banco Espírito Santo, S.A.** for the year ended 31 December 2009, as well as on the related Board of Directors' proposal for the appropriation of the unconsolidated profit for the financial year 2009.

In compliance with the applicable legal, regulatory, and statutory responsibilities, during 2009 the Audit Committee of **Banco Espírito Santo, S.A.** has been informed of the more significant Management decisions, as well as of all the Board of Directors' deliberations regarding the business of the bank, and has also assessed the adequacy and efficiency of the systems of internal control, risk management, and internal audit adopted by the bank.

As part of our functions, we have also overlooked the external audit of the unconsolidated and consolidated financial statements of the bank, including the verification of the accounting records and related supporting documents, as well as the appropriateness of the accounting policies and procedures underlying the abovementioned financial statements. The audit has been performed by KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A. (KPMG), the Accounting Firm which had been appointed by the General Meeting of Shareholders as the bank's Statutory Auditors for the financial years 2008 through to 2011.

Furthermore, we have reviewed the Reports of the bank's Statutory Auditors issued on March 4, 2010, on the unconsolidated and consolidated financial statements of **Banco Espírito Santo, S.A.** for the year ended 31 December 2009, which contain their unqualified professional opinions, with which we concur, on those financial statements.

We have also reviewed the Annual Report of the Board of Directors which describes the bank's activity during the financial year 2009, both on an unconsolidated and consolidated basis, and was prepared in conformity with the applicable legal, regulatory, and statutory requirements.

All considered, we are of the opinion that the Annual General Meeting of Shareholders of **Banco Espírito Santo, S.A**. may approve:

a) The Annual Report of the Board of Directors and the related Unconsolidated and Consolidated Financial Statements of the bank for the financial year ended 31 December 2009;

b) The Board of Directors' proposal for the appropriation of the unconsolidated net profit for the financial year 2009, amounting to 368,844,657.27 euros.

Lisbon, March 9, 2010

The Audit Committee

José Manuel Ruivo da Pena (Chairman)

Luis Daun e Lorena

João de Faria Rodrigues

III Corporate Governance Report

DAVID INFANTE b. 1982, França. **"Untitled"**, 2009. Negative analog photography (film Ilford HP5 400ASA) medium format 6x6, normal revelation. Ink jet printing on paper Hanemuhle Photo Rag Baryta 315g. 2(30x30). Edition: 2/2+1AP - Courtesy Módulo - Centro Difusor de Arte

This report is a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.

0 Statement of Compliance

0.1 Corporate Governance Code

Location where the public may find the Corporate Governance Codes to which the issuer is subject to or those which the issuer voluntarily abides by.

The Executive Board of the Portuguese Securities Commission (CMVM) approved (i) on January 8th, 2010, a set of new recommendations on corporate governance, and (ii) on January 15th, 2010, Regulation no. 1/2010 on the governance of listed companies. These recommendations and rules replace those contained in Regulation no. 1/2007 and in the Corporate Governance Code approved in September 2007.

By circular letter dated January 26th, 2010, addressed to BES, on the matter of the corporate governance report model prescribed in Regulation no. 1/2010, the CMVM clarifies that although it would be preferable for the 2009 Corporate Governance Report to follow said model, it considers that the option for the former model i.e., the model set out in Regulation no. 1/2007, in the year 2010 (2009 report) is acceptable.

Hence, an in so far as the drafting of its Corporate Governance Report was already at an advanced stage at the time, BES will follow this year the model established in Regulation no. 1/2007.

The Corporate Governance Code approved by the CMVM is available at www.cmvm.pt.

0.2 CMVM Recommendations

Detailed description of the recommendations contained in the CMVM Corporate Governance Code (September 2007 version) that have or have not been adopted

CMVM Recommendations		Implemented	Not Implemented	BES Report
I.1.1	The Chair of the General Meeting Board shall be equipped with the necessary and adequate human resources and logistic support, taking the financial position of the company into consideration.	X		I.1
I.1.2	The remuneration of the Chair of the General Meeting Board shall be disclosed in the annual report on corporate governance.	X		I.3
I.2.1	The obligation to deposit or block shares before the General Meeting, contained in the bylaws, shall not exceed 5 working days.	X		I.4
I.2.2	Should the General Meeting be suspended, the company shall not compel share blocking during that period until the meeting is resumed and shall then follow the standard requirement of the first session.	X		I.5
I.3.1	Companies may not impose any statutory restriction on postal voting.	X		I.8
I.3.2	The statutory deadline for receiving early voting ballots by mail shall not exceed 3 working days.	X		I.10
I.3.3	The company's bylaws shall provide for the one share-one vote principal.		X	I.6
I.4.1	Companies shall not set a constitutive or deliberating quorum that outnumbers that which is prescribed by Law.		X	I.7
I.5.1	The minutes of the General Meetings shall be made available to shareholders on the company's website within a 5 day period, irrespective of the fact that such information may not be legally classified as material information. The list of attendees, agenda items of the minutes and resolutions passed during such meetings shall be kept on file on the company's website for a 3 year period.	X		I.1
I.6.1	Measures aimed at preventing successful takeover bids, shall respect both the company's and the shareholders' interests.	NA		III.1
I.6.2	In observance to the principle of the previous sub-paragraph, the company's bylaws that restrict/limit the number of votes that may be held or exercised by a sole shareholder, either individually or in concert with other shareholders, shall also foresee for a resolution by the General Meeting, (5 year intervals, at least) on whether that statutory provision is to prevail – without super quorum requirements as to the one legally in force – and that in said resolution, all votes issued be counted, without applying said restriction.	NA		
I.6.3	In cases such as change of control or changes to the composition of the Board of Directors, defensive measures should not be adopted that instigate an immediate and serious asset erosion in the company, and further disturb the free transmission of shares and voluntary assessment of the performance of the Board of Directors by the shareholders.	X		I.13 and I.14
II.1.1.1	The Board of Directors shall assess the adopted model in its governance report and pin-point possible hold-ups to its functioning and shall propose measures that it deems fit for surpassing such obstacles.	X		0.3
II.1.1.2	Companies shall set up internal control systems in order to efficiently detect any risk to the company's activity by protecting its assets and keeping its corporate governance transparent.	X		II.4
II.1.1.3	The Management and Supervisory Boards shall establish internal regulations and shall have these disclosed on the company's website.	X		II.6
II.1.2.1	The Board of Directors shall include a number of non-executive members that ensure the efficient supervision, auditing and assessment of the executive members' activity.	X		II.9
II.1.2.2	Non-executive members must include an adequate number of independent members. The size of the company and its shareholder structure must be taken into account when devising this number and it may never be less than a fourth of the total number of Directors.	X		II.9
II.1.3.1	Depending on the applicable model, the Chair of the Audit Board, the Audit Committee or the Financial Matters Committees shall be independent and be adequately capable to carry out its duties.	X		II.9 and II.10
II.1.4.1	The company shall adopt a policy whereby irregularities occurring within the company, are reported. Such reports should contain the following information: i) the means through which such irregularities may be reported internally, including the persons that are entitled to receive the reports; ii) how the report is to be handled, including confidential treatment, should it be required by the reporter.	X		II.22
II.1.4.2	The general guidelines on this policy should be disclosed in the corporate governance report.	X		II.22

CMVM Recommendations	Implemented	Not Implemented	BES Report
II.1.4.2 The general guidelines on this policy should be disclosed in the corporate governance report.	X		II.22
II.1.5.1 The remuneration of the members of the Board of Directors shall be aligned with the interests of the shareholders. Thus: i) The remuneration of Directors carrying out executive duties should be based on performance and a performance assessment shall be carried out periodically by the competent body or committee; ii) the level of remuneration shall be consistent with the maximization of the long term performance of the company, and shall be dependent on sustainability of the levels of the adopted performance; iii) when the remuneration of non-executive members of the Board of Directors is not legally imposed, a fixed amount should be set.	X		II.18 to II.20
II.1.5.2 The Remuneration Committee and the Board of Directors shall submit a statement on the remuneration policy to be presented at the Annual Shareholders General Meeting on the Management and Supervisory bodies and other directors as provided for in Article 248/3/b of the Securities Code. The shareholders shall be informed on the proposed criteria and main factors to be used in the assessment of the performance for determining the level (share bonuses; option on share acquisition, annual bonuses or other awards).	X		II.18
II.1.5.3 At least one of the Remuneration Committee's representatives shall be present at the Annual Shareholders' General Meeting.	X		II.19
II.1.5.4 A proposal shall be submitted at the General Meeting on the approval of plans for the allotment of shares and/or options for share purchase or further yet on the variations in share prices, to members of the Management and Supervisory Boards and other Directors within the context of Article 248/3/B of the Securities Code. The proposal shall mention all the necessary information for its correct assessment. The proposal shall contain the regulation plan or in its absence, the plan's general conditions. The main characteristics of the retirement benefit plans for members of the Management and Supervisory Boards and other Directors within the context of Article 248/3/B of the Securities Code, shall also be approved at the General Meeting.	X		II.20
II.1.5.5 The remuneration of the members of the Management and Supervisory Boards shall be individually and annually disclosed and, information on fixed and variable remuneration must be discriminated as well as any other remuneration received from other companies within the group of companies or companies controlled by shareholders of qualifying holdings.	X		II.20
II.2.1 Within the limits established by law for each management and supervisory structure, and unless the company is of a reduced size, the Board of Directors shall delegate the day-to-day running and the delegated duties should be identified in the Annual Report on Corporate Governance.	X		II.2 and II.3
II.2.2 The Board of Directors shall ensure that the company acts in accordance with its goals, and should not delegate its duties, namely in what concerns: i) definition of the company's strategy and general policies; ii) definition of the corporate structure of the group; iii) decisions taken that are considered to be strategic due to the amounts, risk and particular characteristics involved.	X		II.3
II.2.3 Should the Chair of the Board of Directors carry out executive duties, the Board of Directors shall set up efficient mechanisms for coordinating non-executive members that can ensure that these may decide upon, in an independent and informed manner, and furthermore shall explain these mechanisms to the shareholders in the corporate governance report.	NA		
II.2.4 The annual management report shall include a description of the activity carried out by the non-executive Board Members and shall mention any restraints encountered.	X		II.9
II.2.5. The management body should promote member replacement for financial matters at least after a 2 year mandate.	X		II.3
II.3.1 When Directors that carry out executive duties are requested by other Board Members to supply information, the former shall do so in a timely manner and the information supplied must adequately suffice the request made.	X		II.3
II.3.2 The Chair of the Executive Committee shall send the convening notices and minutes of the meetings to the Chair of the Board of the Directors and, when applicable, to the Chair of the Supervisory Board or the Auditing Committee.	X		II.3
II.3.3 The Chair of the Executive Board of Directors shall send the convening notices and minutes of the meetings to the Chair of the General and Supervisory Board and to the Chair of the Financial Matters Committee.	NA		
II.4.1 Besides fulfilling its supervisory duties, the General and Supervisory Board shall advise, follow-up and carry out on an on-going basis, the assessment on the management of the company by the Executive Board of Directors. Besides other subject matters, the General and Supervisory Board shall decide on: i) definition of the strategy and general policies of the company; ii) the corporate structure of the group; and iii) decisions taken that are considered to be strategic due to the amounts, risk and particular characteristics involved.	NA		
II.4.2 The annual reports and financial information on the activity carried out by the General and Supervisory Committee, the Financial Matters Committee, the Audit Committee and the Audit Board shall be disclosed on the company's website together with the financial statements.	X		II.3
II.4.3 The annual reports on the activity carried out by the General and Supervisory Board, the Financial Matters Committee, the Audit Committee and the Audit Board shall include a description on the supervisory activity and shall mention any restraints that they may have come up against.	X		II.3
II.4.4 The Financial Matters Committee, the Audit Committee and the Audit Board (depending on the applicable model) shall represent the company for all purposes at the external auditor, and shall propose the services supplier, the respective remuneration, ensure that adequate conditions for the supply of these services are in place within the company, as well as being the liaison officer between the company and the first recipient of the reports.	X		II.3
II.4.5 According to the applicable model, the Committees for Financial Matters, Audit Committee and the Audit Board, shall assess the external auditor on an annual basis and advise the General Meeting that he/she be discharged whenever justifiable grounds are present.	X		II.3
II.5.1 Unless the company is of a reduced size and depending on the adopted model, the Board of Directors and the General and Supervisory Committees, shall set up the necessary Committees in order to: i) ensure that a competent and independent assessment of the Executive Directors' performance is carried out, as well as its own overall performance and further yet, the performance of all existing Committees; ii) study the adopted governance system and verify its efficiency and propose to the competent bodies, measures to be carried out with a view to its improvement.		X	
II.5.2 Members of the Remuneration Committee or alike, shall be independent from the Members of the Board of Directors.	X		II.19
II.5.3 All the Committees shall draw up minutes of the meetings held.	X		II.6
III.1.2 Companies shall maintain permanent contact with the market thus upholding the principle of equality for shareholders and ensure that investors are able to access information in a uniform fashion. To this end, the company shall create an Investor Assistance Unit.	X		II.12

CMVM Recommendations	Implemented	Not Implemented	BES Report
III.1.3 The following information that is made available on the company's Internet website, shall be disclosed in the English language. a) The company, public company status, headquarters and remaining data provided for in Article 171 of the Commercial Companies Code; b) Bylaws; c) Credentials of the members of the Board of Directors and the Market Liaison Officer; d) Investor Assistance Unit – its functions and access tools; e) Accounts Reporting documents; f) Half-yearly calendar on company events; g) Proposals sent through for discussion and voting during the General Meeting; h) Notices convening general meetings.	X		II.12

0.3 Structure and corporate governance practices of Banco Espírito Santo

When the structure or the corporate governance practices deviate from the CMVM's Recommendations or from other Corporate Governance Codes that the company is subject to or had voluntarily applied to, the company shall explain which parts of each code have not been complied with and the reasons therefor.

Banco Espírito Santo's corporate governance rules and structure were established with the aim of ensuring responsible governance oriented to value creation.

BES's corporate governance abides by four basic principles:

Value

Value creation based on responsible governance.

Knowledge

Business development underlined by a pursuit of knowledge, anchored on the transmission and accumulation of values over more than one century of history.

Integrity

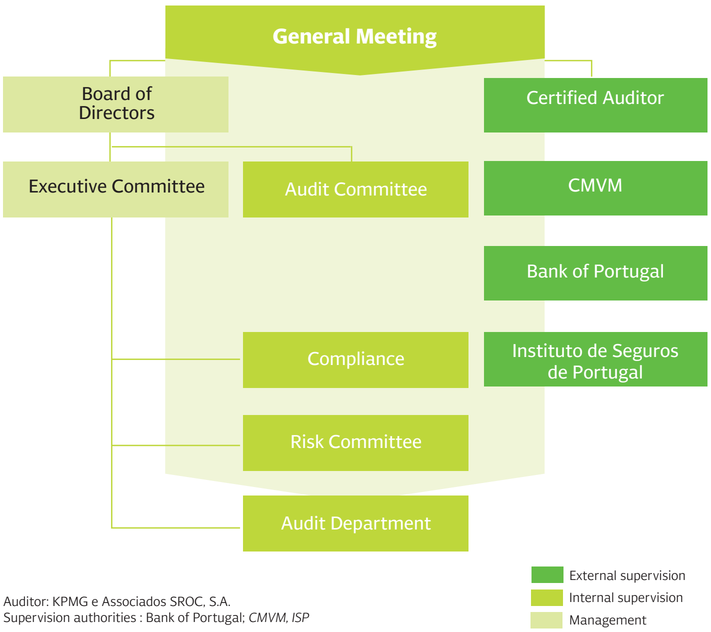
Definition of strict policies to manage the various types of risk incurred in banking activities. Acting upon strict principles of lawfulness, objectivity and clarity, seeking to ensure the confidence and loyalty of Shareholders, Clients, Employees and Suppliers.

Transparency

Assuming a firm commitment to transparent practices:

- disclosing information in such a way as to allow simultaneous access by all stakeholders;
- establishing strategic objectives and a set of corporate values that are communicated throughout the organisation;
- setting and enforcing clear lines of responsibility and accountability throughout the organisation;
- ensuring that board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from interest groups.

BES corporate governance structure



Auditor: KPMG e Associados SROC, S.A.
Supervision authorities : Bank of Portugal; *CMVM, ISP*

The General Meeting of Shareholders meets at least once a year. Its main duties are to elect the corporate bodies, appoint the Remuneration Committee and the External Auditor, and also to assess and resolve on the management report, accounts and distribution of earnings for each financial year.

The management of the company is entrusted to a Board of Directors, elected by the General Meeting for four-year periods, the re-election of its members being permitted. Currently, the Board of Directors consists of 27 members, of whom 7 are qualified as independent Board Members (see II.9). The Board of Directors delegates the day-to-day running of the company to an Executive Committee that meets every week or whenever convened by its Chairman. The Executive Committee consists of 11 members.

The internal supervision function within BES is the responsibility of the Audit Committee of the Board of Directors, which is composed of three independent directors.

Banco Espírito Santo is subject to external supervision by its Statutory Auditor and External Auditor, KPMG & Associados SROC, S.A., as well as by the following supervision authorities: the Bank of Portugal, the Portuguese Securities Market Commission (CMVM), and the Instituto de Seguros de Portugal.

In its assessment of the corporate governance model made in 2009, the Board of Directors did not find any relevant restraints to the corporate governance model approved by BES' shareholders in 2006, which opted for the Anglo-Saxon model, composed of a Board of Directors, with an Audit Committee and a Certified Auditor.

The table below lists the recommendations of the Corporate Government Code that are not followed by BES as well as the reason for the existing deviation.

CMVM Recommendations	Reasons for Deviation
I.3.3 The company's bylaws shall provide for the one share-one vote principal.	BES ensures the required proportionality between equity ownership and voting rights. Each 100 shares are entitled to one vote.
I.4.1 Companies shall not set a constitutive or deliberating quorum that outnumbers that which is prescribed by Law.	BES requires that shareholders representing at least 50% of the share capital be present or represented for the General Meeting to be held on first call. Matters for which the law requires a qualified majority must be approved by two thirds of the votes expressed, whether the Meeting is held on first or second call. BES believes that these rules ensure that resolutions are passed by a sufficiently representative number of shareholders.
II.1.5.5 The remuneration of the members of the Management and Supervisory Boards shall be individually and annually disclosed and, information on fixed and variable remuneration must be discriminated as well as any other remuneration received from other companies within the group of companies or companies controlled by shareholders of qualifying holdings.	BES believes that remunerations received by its Board members from companies controlled by shareholders of qualifying holdings are of no consequence for its shareholders in so far as they do not represent a cost assumed or borne by any company of BES Group.
II.5.1 Unless the company is of a reduced size and depending on the adopted model, the Board of Directors and the General and Supervisory Committees, shall set up the necessary Committees in order to: i) ensure that a competent and independent assessment of the Executive Directors' performance is carried out, as well as its own overall performance and further yet, the performance of all existing Committees; ii) study the adopted governance system and verify its efficiency and propose to the competent bodies, measures to be carried out with a view to its improvement.	The new Corporate Governance Code, of 2010, has abandoned this Recommendation. The performance of the Board of Directors is assessed by BES' Remuneration Committee a well as by the Shareholders' General Meeting. The appraisal of the corporate governance system adopted is made directly by the Board of Directors.

0.4 Independence of the members of the corporate bodies

The corporate body or the committee shall at all times, assess the independence of each of its members and shall inform the shareholders, via a statement included in the corporate governance report, on its assessment both at the time of the appointment and following the loss of independence.

At the end of 2009 a questionnaire was drawn up and a copy sent to each of the members of the Audit Committee and to the remaining non executive members of the Board of Directors, previously qualified as independent, with the aim of assessing whether their independence had been maintained. These questionnaires contain questions about the circumstances upon which the Companies Code makes independence conditional, and about the incompatibilities established in the same code.

Having ascertained that the replies to these questionnaires did not contain information differing from that provided at the time of appointment of the members in question, the Board of Directors was able to ascertain that independence was maintained with regard to the 3 members of the Audit Committee and the other 4 non executive members of the Board of Directors, including its Chairman (namely Alberto Oliveira Pinto, Nuno Godinho de Matos, Isabel de Sousa Coutinho and José Epifânio da Franca). All the members of the Board of the General Meeting are also independent.

For further information regarding independent Board Members please see II.9.

I General Meeting

I.1 Members of the Board

Identification of the members of the General Meeting Board

The Board of the General Meeting is composed of one Chairman, one Vice--Chairman and one Secretary. Its members may or may not be Shareholders, they are elected for periods of four years, and their re-election is permitted.

Paulo de Pitta e Cunha (Chairman)

Graduate in Law from the Law School of the Lisbon University, with a PhD in Law (Legal and Economic Sciences) from the same university, where he is a professor since 1980. He is also a professor at the Portuguese Catholic University since 1984. Chairman of the Board of the European Institute of the Lisbon University Law School. Practicing lawyer and jurisconsult in Lisbon. "Specialist lawyer" in Tax and European Law.

Fernão de Carvalho Fernandes Thomaz (Vice-Chairman)

Graduate in Law (Legal Sciences) from the Law School of the Lisbon University, with a postgraduate degree in Taxation from the Instituto Superior de Gestão. A practicing lawyer since 1960, he also serves in the Board of companies and is a university lecturer.

Nuno Miguel Matos Silva Pires Pombo (Secretary)

Graduate in Law from the Portuguese Catholic University, with a master's degree from the same university and a postgraduate degree in Taxation from the Instituto Superior de Gestão. Trainee assistant at the Portuguese Catholic University Law School since September 1999. Legal Advisor to the Board of Directors of ESCOM – Espírito Santo Commerce, S.A. since October 2005.

The Company secretary and respective support team coordinate the human resources and logistic services required for the preparation of general meetings.

To this end there is a Committee formed by representatives of the Organisation, Execution of Operations, Communication, Legal Affairs and Investor Relations departments and Espírito Santo Informática to monitor and coordinate the provision of services and logistics support to the General Meeting. This committee is responsible for the voting process in general meetings and for coordinating this process with the Chairman of the General Meeting Board. The Chairman of the General Meeting Board considers that the resources herein described are sufficient and adequate to his needs.

The minutes of the General Meetings are made available to shareholders on the company's website, within 5 days after the meeting, where the list of attendees, agenda items of the minutes and resolutions passed during such meetings are also available for at least 3 years. On the same day of the meeting, BES publishes on its website an extract of the minutes containing the main resolutions passed.

I.2 Mandates of the members of the Board

Indication of the commencement and end of the mandates

The current members of the Board of the General Meeting were elected on December 18th, 2006 for the term of office ending on December 31st, 2007, and were re-elected by the General Meeting of March 30th, 2008, to serve in the 2008 – 2011 four-year mandate.

I.3 Remuneration of the Chairman of the Board

Indication of the remuneration of the Chairman and other members of the General Meeting Board

In 2009 the Chairman of the Board of the General Meeting was paid a monthly remuneration of EUR 1,500.00, making a total of EUR 18,000.00 for the year. The Vice-Chairman received a monthly remuneration of EUR 1,000.00, making a total of EUR 12,000.00 and the Secretary a monthly remuneration of EUR 750.00, making a total of EUR 9,000.00.

I.4 Deposit or blocking of shares

Indication of the prior notice for deposit of shares or share-blocking for participation at the General Meeting

Only shareholders with voting rights, whose shares are registered in their name in a securities account on the fifth working day preceding the date of the General Meeting of Shareholders and who give evidence of this registration to the company by the third working day preceding the date of the meeting, by means of a letter issued by the registration entity certifying registration and the blocking of the shares until the end of the meeting or each of its sessions, may attend and participate in the General Meeting of Shareholders or each of its sessions, in case of suspension.

I.5 Suspension

Indication of the applicable rules for share-blocking should the General Meeting be suspended

BES does not oblige the blocking of the shares until the General Meeting is restarted. The ordinary anticipation for the first session is sufficient.

I.6 Vote

Number of shares that correspond to one vote

Each one hundred shares are entitled to one vote. However, Shareholders owning less than one hundred shares may form a group so as to complete the required number or a higher number and nominate one representative from among the group.

I.7 Statutory rules on the exercise of voting rights

The existence of statutory rules on the exercise of voting rights, including constitutive or deliberating quorums or systems for equity rights

Shareholders owning more than one vote are not allowed to divide their votes so as to vote differently on the same proposal, or to withhold from voting with all their shares having voting rights.

Shareholders acting as proxies for others may vote differently with their shares and the shares of the represented parties, and may also withhold from voting with their shares or with the shares of the represented parties.

These are the statutory rules on quorums:

Article 18

Quorum

"1. The General Meeting of Shareholders may not be held on first call unless shareholders owning fifty percent of the share capital are present or repre sented, irrespective of the matters on the agenda.
2. On second call, the General Meeting may pass resolutions whatever the number of shareholders present or represented and the shared capital that they represent."

Article 19

Majority

"1. Without prejudice to cases in which the law or bylaws require a qualified majority, the General Meeting of Shareholders shall pass resolutions by majority of votes.
2. Resolutions on amendments to the company's bylaws, mergers, splits, transformation, winding up or any other matters for which the law requires a qualified majority, without specifying, must be approved by two-thirds of the votes issued, whether the General Meeting of Shareholders meets on first or second call."

The company has no systems in place for detaching voting rights from ownership rights.

I.8 Statutory rules on the exercise of voting rights via postal voting

Existence of statutory rules on the exercise of voting rights via postal voting

There are no statutory restrictions on the exercise of voting rights via postal voting. Postal votes count towards the constitution of the General Meeting quorum and are equally valid for the same general meeting when convened on second call. Postal voting does not prevent a shareholder from being represented in the General Meeting, and postal votes can at any time be revoked. Postal votes cast by a shareholder who is present or represented at the General Meeting shall be deemed as revoked. Postal votes count as votes against motions submitted after their date of issue.

The Company Secretary and the Chairman of the Board of the General Meeting are responsible for checking the authenticity of postal votes and for ensuring their confidentiality up to the time of voting, under the following terms: postal votes are immediately placed in the care of the Company Secretary, who keeps them and hands them over to the Chairman of the Board of the General Meeting at the time each item is being voted.

I.9 Model format for exercising the right to vote via postal means

Availability of a model format for exercising the right to vote via postal means

Convening notices to General Meetings refer that voting rights may be exercised by post, also setting out the manner in which the scrutiny of votes cast by correspondence is conducted, this being also referred in the Regulation of the General Meeting of BES (available at www.bes.pt).

Shareholders who wish to vote by correspondence may easily obtain draft voting instructions for the exercise of postal voting either from BES' Secretary (at Avenida da Liberdade, 195, 14.º andar, 1250-142 Lisboa) or from the Company's website (www.bes.pt). These draft voting instructions set out the items in the agenda of the meeting as well as, when appropriate, the specific motions to which they relate.

I.10 Deadline for receipt of postal ballots

A deadline requirement for the receipt of the postal ballots and the date on which the General Meeting is held

Postal votes must be received at least three working days date prior to the date when the General Meeting is held.

I.11 Electronic voting

The exercise of voting rights via electronic means

The exercise of voting rights by electronic means is not allowed.

I.12 Intervention by the General Meeting on the remuneration policy and performance assessment of the Board of Directors

Information of the intervention by the General Meeting on matters concerning the remuneration policy of the company and the performance assessment of the members of the Board of Directors

The General Meeting decides annually on the remuneration policy of the corporate bodies of Banco Espírito Santo, as described in point II.18.

Every year, the meeting also makes a general assessment of the management of the company based on its performance appraisal of corporate activities in the previous financial year.

I.13 Changes in company control or in the composition of the Board of Directors

Indication of the defensive measures that are intended to immediately instigate asset erosion in cases such as changes in the control or to the composition of the Board of Directors

No such measures exist.

I.14 Change in agreements in case of change in company control

Main agreements to which the company is a part of and that come into force, are changed or end in cases such as change in company control, as well as related outcome, unless the disclosure of same, due to its nature, is highly damaging to the company and save when the company is specifically obliged to disclose such information by force of legal imperatives

In 2006 BES reorganised its holdings in the Portuguese insurance sector, having purchased 50% of the share capital and voting rights in BES Vida, Companhia de Seguros, S.A., and sold a 15% holding in BES, Companhia de Seguros, S.A., where it maintained a stake of 25%.

Both transactions were supported by a shareholders agreement entered into with these companies' shareholder, Crédit Agricole, S.A., which has meanwhile transferred its position to Crédit Agricole Assurances. Pursuant to this agreement, if the shareholder BESPAR – Sociedade Gestora de Participações Sociais ceases to hold, for any reason, at least 33% of the share capital or voting rights in BES, Crédit Agricole Assurances has the potestative right to sell to BES or to whomever BES may appoint all its shares in BES Vida, Companhia de Seguros, S.A. and BES, Companhia de Seguros, S.A..

I.15 Agreements providing for compensation

Agreements between the company and the Board of Directors and senior executives, within the meaning of article 248/B/3 of the Securities Code, that provide for compensation if they resign or are made redundant without a valid reason or if their employment ceases following a change in company control

No such agreements exist.

II Management and Supervisory Bodies

II.1 Identification and composition of the corporate bodies

Board of General Meeting

Paulo de Pitta e Cunha (Chairman)
Fernão de Carvalho Fernandes Thomaz (Vice-Chairman)
Nuno Miguel Matos Silva Pires Pombo (Secretary)

Board of Directors

Alberto Alves de Oliveira Pinto (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Jean-Frédéric Marie Jacques de Leusse (Vice-Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Feixial de Goes
Pedro José de Sousa Fernandes Homem
Luís António Burnay Pinto de Carvalho Daun e Lorena
Ricardo Abecassis Espírito Santo Silva
José Manuel Ruivo da Pena
Amilcar Carlos Ferreira de Morais Pires
Bernard Delas [(1)]
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Bernard Octave Mary [(2)]
Michel Joseph Paul Goutorbe
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca
Luiz Carlos Trabuco Cappi [(3)]

Audit Committee

José Manuel Ruivo da Pena (Chairman)
Luis António Burnay Pinto de Carvalho Daun e Lorena
João de Faria Rodrigues

Certified Statutory Auditor (ROC)

KPMG Associados, SROC SA, represented by Sílvia Cristina de Sá Velho Corrêa da Silva Gomes
Deputy Certified Statutory Auditor, Jean-Éric Gaign (ROC)

Company Secretary

Eugénio Fernando Quintais Lopes (Secretary)
Pedro Moreira de Almeida Queiroz de Barros (Deputy Secretary)

(1) Bernard Delas renounced his position as member of the Board of Directors on February 5th, 2010
(2) Bernard Octave Mary was co-opted by the Board of Directors on October 31st, 2008, to replace Gilles Roland Maurice Jacquin de Margerie, who renounced his position on November 7th, 2008. Gilles Roland Maurice Jacquin de Margerie had been co-opted by the Board of Directors on July 1st, 2008, to replace Jean-Yves Hocher, who had renounced his position.
(3) Luiz Carlos Trabuco Cappi was elected by the General Meeting of July 16th, 2009

II.2 Other committees with management and supervision responsibilities

Identification and composition of other committees created with responsibilities for the management or the supervision of the company

Executive Committee

Ricardo Espírito Santo Silva Salgado (Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Amílcar Carlos Ferreira de Morais Pires
João Eduardo Moura da Silva Freixa

Several other committees have been created with the aim of monitoring directly the performance of specific business areas.

Business Units Monitoring Committees[(1)]:

a. Corporate / Wholesale / Investment Banking

Monitors the development of these business areas, ensuring that there is coordination between BES's corporate banking activity and the activity of Banco Espírito Santo de Investimento, and at international level, promoting coordinated action with the Branch in Spain and with Banco Espírito Santo de Investimento do Brasil.

b. Retail Banking (Individual Clients and Small Businesses)

Monitors the evolution of business in each of the retail segments (Affluent Clients, Small Companies and Independent Professionals and Mass Market), and promotes cross-segment business with other business areas (namely medium sized and large corporates). The committee also oversees Assurfinance activities, promoting the acquisition of Companhia de Seguros Tranquilidade clients.

c. Private Banking

Monitors the development of the business, ensures coordination with other business areas - taking advantage of the increasing interconnection between the Private Banking Centres and the Corporate Centres -, and develops activities with Portuguese residents abroad.

d. International Banking

Monitors and promotes the development of BES Group's international banking activity, contributing to foster the business of subsidiaries and branches and evaluating and submitting to the Executive Committee new initiatives in previously untapped markets or businesses areas. The committee also ensures that there is coordination between BES's activity in Portugal and that of the various units abroad.

(1) The composition of each Committee can be consulted in point II.3. of this document

Group-Wide Committees[2]:

a. Assets and Liabilities (ALCO)

The Assets and Liabilities Committee analyses macroeconomic data from Portugal and from the main economic areas in the world, making impact projections on the banking business. The ALCO also monitors the evolution of BES Group's consolidated balance sheet and that of its main business units, specifically the balances of customer loans and customer funds and margins, providing the Executive Committee with the data required to set growth targets for customer loans and deposits, and define a funding strategy (management of balance sheet mismatch) and price/margins targets. Its functions also include monitoring and benchmarking products sold by competitors and approving the product offer and pricing within the scope of the established strategy.

b. Information Systems, Operations, Quality and Costs (CIOQC)

The CIOQC committee prioritises investments in information systems and the operations and monitors their implementation. It also monitors the development of special projects in the areas of operations, systems, quality and costs. In particular, the committee oversees the Bank's overall performance in terms of quality indicators – with particular regard to customer service quality and the support provided by the central areas to the commercial areas.

c. Risk

The Risk Committee is responsible for all matters related to BES Group's overall risk, and in particular for monitoring the evolution of risk in each of the main client segments and product categories. It also oversees special projects in the area of Risk.

d. Financial and Credit

The Financial and Credit Committee decides on all credit operations that fall outside the scope of the credit granting limits established for each board member.

II.3 Organisational chart, distribution of duties and list of non-delegable subject matters

Organisational structure or functional chart concerning the delegation of responsibilities among the various corporate bodies, committees and/or departments within the company, including information on the scope of delegating responsibilities or distributing duties among the members of the Management or Supervisory bodies, as well as a list of non-delegable subject matters

a. Organisational structure or functional chart concerning the delegation of responsibilities among the various corporate bodies, committees and/or departments within the company:

(2) The composition of each Committee can be consulted in point II.3. of this document

b. Information on the scope of delegating responsibilities or distributing duties among the members of the Management or Supervisory bodies

Executive Committee

The distribution of areas of responsibility among the members of the Executive Committee is as follows:

Ricardo Espírito Santo Silva Salgado

Current areas of responsibility:
Chairman of the Executive Committee, Financial and Credit Committee and ALCO Committee. Planning and Accounting, Compliance, Corporate Communication, and Divestitures Departments, Investor Relations Office, General Secretariat of the Executive Committee, Purchases and Property Division and BESart curatorship. Furthermore, ensures coordination between BES and ESAF, ES Ventures, Banco BEST, BES Angola and ES Bank.

Member of the following Committees:
Retail; Corporate Banking; International Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Private Banking; Financial and Credit Committee.

José Manuel Pinheiro Espírito Santo Silva

Current areas of responsibility:
Coordinates Private Banking in BES Group, Madeira Offshore Branch, Emigrants, and BES History Research Centre. Ensures coordination between BES and the branch in Spain.

Member of the following Committees:
Private Banking; International Banking; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC).

António José Baptista do Souto

Current areas of responsibility:
Middle market (North and South), Corporate Banking, Corporate and Institutional Marketing, Municipalities and Institutional Clients, Leasing & Factoring, Corporate Modernisation and Human Resources.

Member of the following Committees:
Corporate Banking; International Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Financial and Credit Committee.

Jorge Alberto Carvalho Martins

Current areas of responsibility:
Chairman of the Credit Board (Porto), Commercial Department North, Mortgage Credit Department, Real Estate Companies and External Promoters, Real Estate Technical Department. Ensures coordination with Locarent - Companhia Portuguesa de Aluguer de Viaturas.

Member of the following Committees:
Retail; Private Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Corporate Banking; Financial and Credit Committee.

José Maria Espírito Santo Silva Ricciardi

Current areas of responsibility:
Global Risk; ensures coordination with Banco Espírito Santo de Investimento, of which he is Chairman of the Executive Committee.

Member of the following Committees:
Corporate Banking; International Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC).

Jean-Luc Louis Marie Guinoiseau

Current areas of responsibility:
Organisation; Execution of Operations Department, ensures coordination with ES Informática, and ES Recuperação de Crédito.

Member of the following Committees:
Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC).

Rui Manuel Duarte Sousa da Silveira

Current areas of responsibility:
Legal Affairs Department, Internal Audit, Security Coordination Department and Corporate Office.

Joaquim Aníbal Brito Freixial de Goes

Current areas of responsibility:
Strategic Marketing, Retail Marketing, BES 360 Marketing, Small Businesses Marketing, Communication Marketing and Consumer Surveys, Management Information, Service Quality, Direct and Self Banking Departments, Universities, Assurfinance, and Credit to Tourism Real Estate Offices. Ensures coordination with BES Companhia de Seguros and ES Contact Centre.

Member of the following Committees:
Retail; Corporate Banking; Assets and Liabilities (ALCO), Information Systems, Operations, Quality and Costs (CIOQC); Risk.

Pedro José de Sousa Fernandes Homem

Current areas of responsibility:
Transactional Banking and International Banking, International Branches - in coordination with Amílcar Morais Pires (New York, London and Cape Verde) -, and other international holdings.

Member of the following Committees:
International Banking; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC).

Amílcar Carlos Ferreira de Morais Pires

Current areas of responsibility:
Financial, Markets and Research; Savings Management; Procurement and Costs Control, Management Control (shared with Ricardo Salgado), and ES Research; ensures coordination with BES Vida, BES Finance, BES Cayman, BESIL, BIBL, BES GmbH and Avistar (of which he is Chairman of the Board of Directors).

Member of the following Committees:
Private Banking; Corporate Banking; International Banking; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC); Risk; Financial and Credit Committee.

Note
Board Member Amílcar Carlos Ferreira de Morais Pires is the CFO of BES, and has held this responsibility for less than two mandates.
Banco Espírito Santo takes the view that the attributes required for the post of CFO do not justify the rotation of the Board member in charge of the financial area, thus disagreeing in this respect with the CMVM Recommendation (Recommendation II.2.5).

João Eduardo Moura da Silva Freixa

Current areas of responsibility:
Commercial Department South, Consumer Credit, Acquiring and Cards. Ensures coordination with BES Azores and with the Branch in Spain (shared with José Manuel Pinheiro Espírito Santo Silva).

Member of the following Committees:
Assets and Liabilities (ALCO); Retail; Information Systems, Operations, Quality and Costs (CIOQC); Risk.

c. List of non-delegable subject matters

In addition to the subject matters which by law are non-delegable in the Executive Committee, the Regulation of the Board of Directors and of the Executive Committee (available for consultation at www.bes.pt/ir) also establishes the following duties that are the exclusive responsibility of the Board of Directors:
a. to define the company's strategy and general policies;
b. to define the corporate structure of the Group;
c. to take all decisions considered to be strategic due to the amounts, risk and particular characteristics involved.

d. Provision of information:

The Chairman of the Executive Committee shall send the convening notices and minutes of the meetings of the Executive Committee to the Chairman of the Board of the Directors and to the Chairman of the Audit Committee.
All members of the Executive Committee shall provide any information requested by the other corporate bodies.

e. Audit Committee

The Audit Committee is the supervisory body of BES, responsible for supervision of the Bank management in general, for verification of the effectiveness of the risk management system, the internal control system and the internal audit system, as well for representing BES, for all purposes, to the external auditor, which is annually evaluated by this Committee.

The annual report about the activities of the Audit Committee includes the description of the supervisory activity undertaken and is disclosed on the BES website, together with the accounts reporting documents.

The Audit Committee is composed of three non executive directors qualified as independent: José Manuel Ruivo da Pena, Luís António Burnay Pinto de Carvalho Daun e Lorena e João de Faria Rodrigues. Please refer to item II.9 of this document for full description and item II.10. for the respective professional qualifications and activity in the last five years.

II.4 Internal control and risk management systems

Description of the internal control and risk management systems within the company, namely as regards the financial information disclosure system

Internal Control System
Banco Espirito Santo has in place an internal control system which is managed by the Compliance Department.

To assist it in carrying out these duties, the Compliance Department has set up a separate independent unit, the Internal Control System Management Unit (UGSCI).

The UGSCI is responsible for all the assessment, systematisation, monitoring and maintenance tasks required by BES's internal control system, and for guaranteeing an overall perspective and integrated management of the entire internal control system of BES Group as the guarantor of the reliability of the financial information, the protection of assets and the adequate prevention of risks.

The UGSCI is also responsible for internal reporting, namely through monthly update briefings, as well as for external reporting to the national and international regulatory authorities, thus ensuring the overall perspective and integrated management of the internal control system.

For the design and assessment of its internal control system, BES Group adopted COSO methodologies and principles (the COSO - Committee of Sponsoring Organizations of the Treadway Commission - was created in 1985 in the US to identify and combat the primary causes of fraudulent financial reporting, establishing for the purpose recommendations and frameworks for companies):

- the internal control culture promoted within the organisation determines the conduct and awareness of its employees;
- the organisation faces a diversity of risks which must be assessed at the level of the entity and processes;
- the control procedures established must ensure that management directives are complied with;
- all relevant information must be obtained and reported;
- the internal control system must be supported by a monitoring process.

Risk Control System

At BES Group, the risk function is organised in such a way as to cover the credit, market, liquidity, on balance sheet interest rate, exchange rate, operational, and compliance risks.

It is the responsibility of the Executive Committee of Banco Espírito Santo to define the objective risk profile, for which it establishes global and specific limits. Its responsibility also includes establishing the general principles of risk management and control, and ensuring that BES Group has the necessary competences and resources for the purpose.

The main units dedicated to the prevention of risk in the Bank's activity are the Risk Committee, the Global Risk Department, the Credit Risk Monitoring Committee, the Compliance Department, and the Internal Audit Department (the risk control system is explained in detail in Chapter 6 of the Consolidated Management Report).

The Risk Committee is responsible for monitoring the Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk to which BES is subject, namely credit, operational and market risk, liquidity risk and interest rate risk. This Committee also analysis the evolution of risk adjusted return and the value added by the main segments/clients. The Risk Committee holds monthly meetings, which are attended by the Chairman of the Executive Committee.

The Global Risk Department (GRD) centralises the Risk function of the Banco Espírito Santo Group, having as main responsibilities to:

- identify, assess and control the different types of risk assumed, thus managing the Group's overall risk exposure;
- implement the risk policies outlined by the Executive Committee, while har monising principles, concepts and methodologies across all the Group's units;
- contribute towards the achievement of BES Group's value creation objectives, by fine-tuning tools to support the structuring and pricing of operations, and by developing internal techniques for performance assessment and for optimising the capital position.

The **Credit Risk Monitoring Committee (CARC)** has the following main objectives:

- to analyse and assess clients whose creditworthiness shows signs of deteriorating, based on:
  - the client's economic and financial profile;
  - type of credit exposure;
  - nature and value of the guarantees received, paying attention to the dates when the assets provided as security were evaluated and the entities which carried out these evaluations.
- warning signals detected in the behavioural profile of clients in their relations with the bank and with the financial system in general;
- to formulate strategic options regarding the commercial relations and levels of active vigilance required for and better adjusted to the profile and specific circumstances of each of the entities/groups under analysis;
- to analyse and validate the credit impairment levels established for the group of entities in question, in accordance with predetermined objective criteria.

The **Compliance Department** ensures the day-to-day management of compliance activities, which include:

- advising the Board of Directors on compliance with legal, regulatory, ethical and conduct obligations to which the institution is subject;
- implementing policies and procedures for the prevention and detection of money laundering and terrorism financing;
- executing the assessment, systematisation, monitoring and maintenance tasks required by the bank's internal control system, and reporting internally and externally on the respective results;
- verifying compliance with regard to financial intermediation activities registered with the CMVM, under the terms set forth in the Securities Code;
- monitoring the implementation of the Code of Conduct of BES Group employees.

The **Internal Audit Department** assesses the effectiveness and adequacy of risk management, internal control and governance processes in the companies of BES Group with the objective of reducing risk conditions.

Its responsibilities include:

- analysing operational and business processes, assessing the effectiveness of the respective risk management and controls, as well as compliance with applicable legal /regulatory provisions and internal regulations;
- cooperating with all the bodies of BES Group viewing the implementation and correct application of policies established at senior management level, particularly with regard to the understanding and application of internal control procedures;
- checking and assessing the protection and safety of money, recording and documentary assets that are the property of the BES Group or were entrusted to it for safeguarding;
- within the scope of its powers, ensuring and promoting the relations with Legal and Police authorities, with the Bank of Portugal, the CMVM and other supervision authorities, also addressing requests from other public and private institutions;
- participating in the definition and preparation of an internal regulatory framework, both through the issue of specific regulations and by taking part in consultations carried out in the field of control and safety principles applicable to banking procedures;
- ensuring the prompt correction of practices that breach regulatory texts and/or internal regulations, while making sure that the procedures adopted for the execution of operations are duly regulated.

II.5 Powers of the Board of Directors

Powers of the Board of Directors, particularly as regards resolutions on capital increase

BES's Board of Directors has no powers to decide on a capital increase. All decisions on capital increases must be approved by the General Meeting, upon a proposal submitted by the Board of Directors.

II.6 Regulations on the functioning of the corporate bodies

Indication of the existence of regulations on the functioning of the corporate bodies or any internally defined rules on incompatibility and the maximum number of positions that a member is entitled to hold and the place where these rules may be consulted

All the company's corporate bodies have internal regulations, namely the Board of Directors and Executive Committee Regulation, the Audit Committee Regulation and the General Meeting Regulation, which are all disclosed in the Company's website (www.bes.pt).

The company has no internally defined rules on incompatibility nor has it established a maximum number of positions that a member is entitled to hold.

All BES's corporate bodies and committees draw up minutes of the meetings held.

II.7 Appointment and replacement of members of the management and supervisory body

Rules applicable to the appointment and replacement of members of the management and supervisory body

The members of the Company's management and supervisory bodies are elected by the General Shareholders' Meeting.

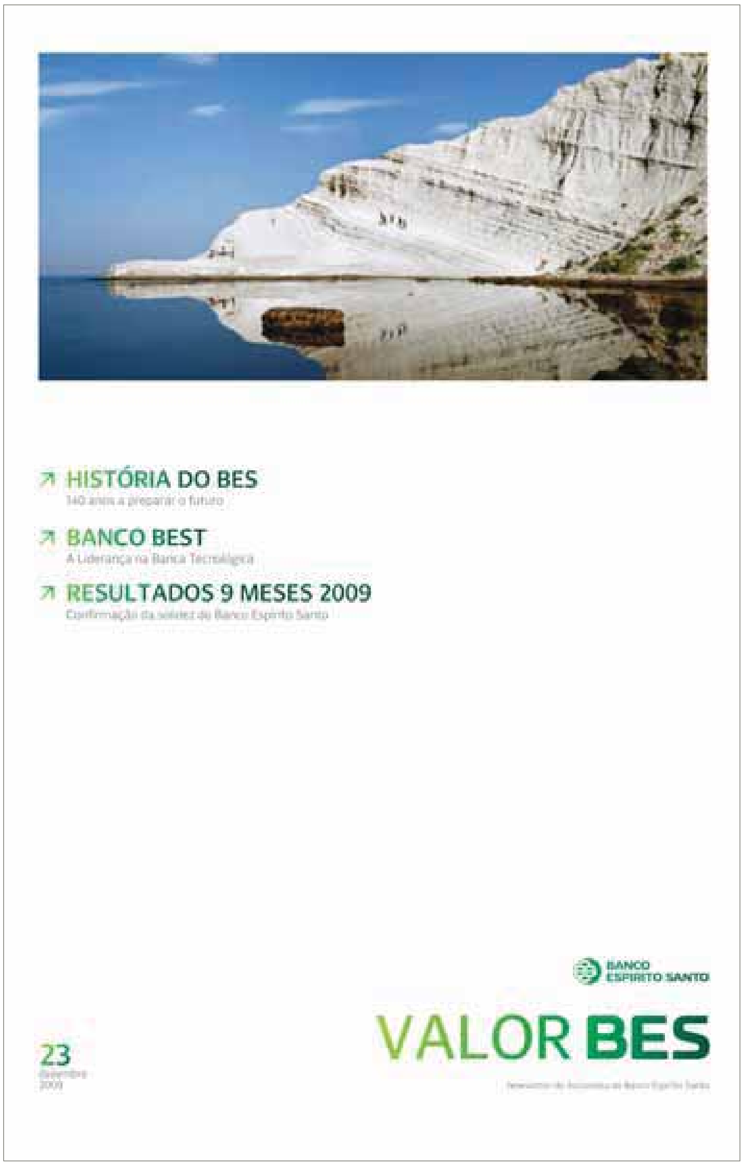
The Company has no specific rules concerning the definitive absence or impediment of any member of the Board. In such cases the practice has been for a substitute member to be co-opted, and this co-optation ratified in the next General Meeting. The mandate of the member so elected will expire at the end of the office period for which the replaced member had been elected.

II.8 Meetings held by the management and supervisory body and other committees

Number of meetings held by the Management and Supervisory Body and other created Committees that are responsible for managing and supervising during that time

In 2009 BES' Board of Directors held 7 meetings, the Audit Committee 8 meetings and the Executive Committee 77 meetings. The number of meetings indicated for the Audit Committee and Executive Committee concerns the formal meetings held exclusively by each of these bodies.

As regards the business units monitoring committees, the Corporate/ Wholesale/Investment Banking Committee held 12 meetings, the Retail Banking Committee held 12 meetings, the Private Banking Committee held 5 meetings and the International Banking Committee held 4 meetings. As to the Group-wide Committees, the ALCO Committee met 12 times, the CIOQC Committee 11 times, the Risk Committee 11 times and the Financial and Credit Committee 236 times.



II.9 Identification of the members of the Board of Directors and classification as independent or non independent members

Identification of the members of the Board of Directors and other Committees created within the company and their distinction between executive and non-executive members and from among the latter, which members comply with the incompatibility rules provided for in article 414/A/1, except for item b/ and the independence criterion mentioned in article 414/5, both from the Companies Code.

Board Member	Date of birth	Nationality	Executive Committee	Independent	Reason for not independent
Alberto de Oliveira Pinto	26/06/1932	Portuguese	No	Yes	
Ricardo Salgado	25/06/1944	Portuguese	Yes	No	Executive
Jean-Frédéric de Leusse	29/10/1957	French	No	No	Board Member or contract with shareholder Crédit Agricole, S.A.
José Manuel Espírito Santo	02/05/1945	Portuguese	Yes	No	Executive
António Souto	17/04/1950	Portuguese	Yes	No	Executive
Jorge Martins	17/07/1957	Portuguese	Yes	No	Executive
Aníbal Oliveira	24/09/1935	Portuguese	No	No	Board Member of Espírito Santo Financial (Portugal) - SGPS, S.A.
Manuel Fernando Espírito Santo	20/07/1958	Portuguese	No	No	Board Member of Espírito Santo Financial (Portugal) - SGPS, S.A.
José Maria Ricciardi	27/10/1954	Portuguese	Yes	No	Executive
Jean-Luc Guinoiseau	20/12/1954	French	Yes	No	Executive
Rui Silveira	11/12/1954	Portuguese	Yes	No	Executive
Joaquim Goes	09/09/1966	Portuguese	Yes	No	Executive
Pedro Homem	19/07/1947	Portuguese	Yes	No	Executive
Luís Daun e Lorena	11/10/1944	Portuguese	No	Yes	
Ricardo Espírito Santo Silva	04/11/1958	Portuguese	No	No	Board Member of Espírito Santo Financial (Portugal) - SGPS, S.A.
José Pena	05/11/1940	Portuguese	No	Yes	
Amílcar Morais Pires	30/05/1961	Portuguese	Yes	No	Executive
Bernard Delas (1)	01/08/1948	French	No	No	Board Member or contract with shareholder Crédit Agricole, S.A.
Nuno Godinho de Matos	31/10/1949	Portuguese	No	Yes	
João Freixa	24/06/1956	Portuguese	Yes	No	Executive
Bernard Octave Mary (2)	17/11/1947	French	No	No	Board Member or contract with shareholder Crédit Agricole, S.A.
Michel Goutorbe	16/11/1956	French	No	No	Board Member or contract with shareholder Crédit Agricole, S.A.
Pedro Amaral	27/06/1968	Portuguese	No	No	Contract with BES
Isabel de Sousa Coutinho	12/12/1946	Portuguese	No	Yes	
João de Faria Rodrigues	31/10/1955	Portuguese	No	Yes	
José Epifânio da Franca	02/01/1955	Portuguese	No	Yes	
Luiz Carlos Cappi (4)	06/10/1951	Brazilian	No	No	Board Member or contract with shareholder Banco Bradesco, S.A.

(1) Bernard Delas renounced his position as member of the Board of Directors on February 5th, 2010
(2) Co-opted by the Board of Directors on October 31st, 2008, to replace Gilles Roland Maurice Jacquin de Margerie, who renounced his position on November 7th, 2008(3)
(3) Gilles Roland Maurice Jacquin de Margerie had been co-opted by the Board of Directors on July 1st, 2008, to replace Jean-Yves Hocher, who had renounced his position
(4) Luiz Carlos Trabuco Cappi was elected by the General Meeting of July 16th, 2009

The Board of Directors consists of 27 members, of whom 11 are executive and 16 are non-executive. BES considers that this type of composition guarantees the effective capacity for supervision, audit and evaluation of the activity undertaken by the Executive Committee members.

From the 16 non-executive Board members, 7 qualify as independent directors, representing more than 25% of the Board. Hence in this regard they all also conform to the regime of incompatibilities set out in the Companies Code. The independent Board members include the 3 members of the Audit Committee (José Pena, Luís Daun e Lorena and João Faria Rodrigues) while the remaining 4 non-executive Board members are Alberto de Oliveira Pinto (Chairman of the Board of Directors), Nuno Godinho de Matos, Isabel de Sousa Coutinho and José Epifânio da Franca. The process of verification of the independence of the non executive Board members is described in point 0.4 of this report.

These independent directors take part in all the meetings of the Board of Directors and therefore are on a par with the progress of BES' activity, for which they can also request information from any other corporate bodies or internal units of BES Group. In the exercise of its functions the Board of Directors did not come up against any constraint to its functioning.

II.10 Professional qualifications of the members of the Board of Directors and professional activities carried out during the last five years

Professional qualifications of the members of the Board of Directors, the professional activities carried out by them at least during the last five years, the number of company shares they hold and the date of the commencement and end of the first mandate

Alberto Alves de Oliveira Pinto Chairman

Academic qualification: Graduated in Economic Sciences from Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa.

Professional activities carried out during the last five years: Chairman of the Board of Directors of Banco Nacional de Crédito Imobiliário from 1991 to 2005. Non Executive member of the Board of Directors of Banco Espírito Santo from February 2006 to March 2008. Non Executive member of the Board of Directors of Galp Energia from 2006 to 2008. Chairman of the Board of Directors of BES since March 2008.

No. of shares held on 31/12/2009: 0

First appointment: February 2006

Mandate ends in: 2011

Ricardo Espírito Santo Silva Salgado Vice-Chairman

Qualificação Profissional: Graduated in Economics from Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa.

Professional activities carried out during the last five years: Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of Banco Espírito Santo, Chairman of the Board of Directors of Espírito Santo Financial Group, S.A., Bespar - SGPS, S.A. and Partran, SGPS, S.A.. Member of the Executive Committee of the Institut International d'Études Bancaires since 2003 and its Chairman between October 2005 and December 2006. Member of the Board of Directors of Banco Bradesco (Brazil) since 2003. Member of the Board of Directors and Human Resources and Compensation Committee of the NYSE Euronext.

No. of shares held on 31/12/2009: 1,261,840

First appointment: September 1991

Mandate ends in: 2011

Jean-Frédéric de Leusse Vice-Chairman

Academic qualification: École Polytechnique; École Nationale d'Administration.

Professional activities carried out during the last five years: Director of the international retail banking area of Crédit Agricole from 2003 to 2005, and since 2007 General Director of the Crédit Agricole group for the international area. Appointed executive Vice-Chairman of Crédit Agricole and Director of the specialised business division (asset management, real estate, private banking and specialised financial services) in October 2008. Member of the Board of Directors of Banco Espírito Santo since 2004.

No. of shares held on 31/12/2009: 0

First appointment: March 2004

Mandate ends in: 2011

José Manuel Pinheiro Espírito Santo Silva

Academic qualification: Graduated in Economics, specialising in Company Administration and Management, from Évora University (former Instituto de Estudos Superiores de Évora).

Professional activities carried out during the last five years: Chairman of Banque Privée Espírito Santo S.A., executive member of the Board of Directors of Banco Espírito Santo and Vice-Chairman of Espírito Santo Financial Group, S.A.

No. of shares held on 31/12/2009: 359,645

First appointment: April 1992

Mandate ends in: 2011

António José Baptista do Souto

Academic qualification: Graduated in Economics from the School of Economics of Porto University.

Professional activities carried out during the last five years: Executive member of the Board of Directors of Banco Espírito Santo, S.A., Chairman of the Board of Directors of E.S. Data. S.G.P.S., S.A., Besleasing & Factoring, IFIC, S.A., and Angra Moura-Sociedade de Administração de Bens, S.A., and member of the Board of Directors of SIBS-Sociedade Interbancária de Serviços, S.A., Companhia de Seguros Tranquilidade, S.A., Companhia de Seguros Tranquilidade-Vida, S.A., Unicre-Cartão Internacional de Crédito, S.A., Espírito Santo - Empresa de Prestação de Serviços, A.C.E., Espírito Santo - Companhia de Seguros, S.A., and Espírito Santo Overseas, LTD..

No. of shares held on 31/12/2009: 51,212

First appointment: November 1990

Mandate ends in: 2011

Jorge Alberto Carvalho Martins

Academic qualification: Graduated in Economics from the School of Economics of Porto University.

Professional activities carried out during the last five years: Administrador Executivo do Banco Espírito Santo.

No. of shares held on 31/12/2009: 145,020

First appointment: July 1993

Mandate ends in: 2011

Aníbal Costa Reis de Oliveira

Academic qualification: General Commercial Management (Porto); Chemical Engineering (Germany).

Professional activities carried out during the last five years: executive positions in companies of the Riopele Group.

No. of shares held on 31/12/2009: 800,000

First appointment: April 1992

Mandate ends in: 2011

Manuel Fernando Moniz Galvão Espírito Santo Silva

Academic qualification: B.A. Business Administration, Richmond College, London International Bankers' Course at Barclays and Midland Bank, London; INSEAD, Fontainebleau - "Inter-Alpha Banking Programme".

Professional activities carried out during the last five years: Chairman of the Executive Committee of Espírito Santo Resources. Executive Member of the World Travel & Tourism Council since 2003.

No. of shares held on 31/12/2009: 2,484

First appointment: March 1994

Mandate ends in: 2011

José Maria Espírito Santo Silva Ricciardi

Academic qualification: Graduated in "Sciences Economiques Appliquées" from the Université Catholique de Louvain, Faculté des Sciences Économiques, Sociales et Politiques, Institut d'Administration et de Gestion, Belgium.

Professional activities carried out during the last five years: Executive member of the Board of Directors of Banco Espírito Santo. Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of BES Investimento. Chairman of the Board of Directors of BES Investimento do Brasil, S.A. Non Executive member of the Board of Directors of EDP – Energias de Portugal, S.A. from March to June 2006 and Member of the Supervisory Board since July 2006.

No. of shares held on 31/12/2009: 30,634

First appointment: March 1999

Mandate ends in: 2011

Jean-Luc Guinoiseau
Academic qualification: Graduated in Higher Economic Studies from Conservatoire National des Arts et Métiers (Paris), taking the CESA course on Strategic Management – HEC, Paris.
Professional activities carried out during the last five years: Executive member of the Board of Directors of Banco Espírito Santo.
No. of shares held on 31/12/2009: 116,770
First appointment: September 1999
Mandate ends in: 2011

Rui Manuel Duarte Sousa da Silveira
Academic qualification: Graduated in Law from the Law School of the Lisbon University.
Professional activities carried out during the last five years: practising lawyer, Executive member of the Board of Directors of Banco Espírito Santo.
No. of shares held on 31/12/2009: 14,952
First appointment: March 2000
Mandate ends in: 2011

Joaquim Aníbal Brito Freixial de Goes
Academic qualification: Graduated in Corporate Management and Administration, specialising in Marketing and Finance from Lisbon's The Portuguese Catholic University. In 1994 took a Masters Degree in Business Administration from INSEAD, Fontainebleau.
Professional activities carried out during the last five years: Executive member of the Board of Directors of Banco Espírito Santo. Member of the Board of Directors of Portugal Telecom.
No. of shares held on 31/12/2009: 73,940
First appointment: March 2000
Mandate ends in: 2011

Pedro José de Sousa Fernandes Homem
Academic qualification: Graduated in Law from the Law School of the Lisbon University.
Professional activities carried out during the last five years: Executive member of the Board of Directors of Banco Espírito Santo.
No. of shares held on 31/12/2009: 12,635
First appointment: June 2000
Mandate ends in: 2011

Luis António Burnay Pinto de Carvalho Daun e Lorena
Academic qualification: third year of Law from the Law School of the Lisbon University.
Professional activities carried out during the last five years: Member of the Board of Directors and of the Audit Committee of Banco Espírito Santo.
No. of shares held on 31/12/2009: 0
First appointment: March 2002
Mandate ends in: 2011

Ricardo Abecassis Espírito Santo Silva
Academic qualification: Graduated in Economics from The City University, London, UK.
Professional activities carried out during the last five years: Executive Chairman of BES Investimento do Brasil, Member of the Board of Directors of BES Investimento since 2003, where he was appointed Executive Director in 2005. Member of the Board of Directors of Banco Espírito Santo since 2002.
No. of shares held on 31/12/2009: 66,466
First appointment: March 2002
Mandate ends in: 2011

José Manuel Ruivo da Pena
Academic qualification: Graduated in Company Organisation and Management from Instituto Superior das Ciências do Trabalho e da Empresa (ISCTE); subsequently attended the International Advanced Executive Program (IAEP) of the JL Kellog Graduate School of Management, Northwestern University, Chicago, USA.
Professional activities carried out during the last five years: Non executive member of the Board of Directors of Banco Espírito Santo since 2003 and member of the Audit Committee until 2007. Chairman of the Supervisory Boards of BES Seguros, S.A. and BES Vida, S.A. since 2006. Chairman of the Supervisory Boards of Companhia de Seguros Tranquilidade, S.A. and Patran, S.A since 2007. Appointed Chairman of BES's Audit Committee in March 2008.
No. of shares held on 31/12/2009: 0
First appointment: May 2003
Mandate ends in: 2011

Amílcar Carlos Ferreira de Morais Pires
Academic qualification: Graduated in Economic Sciences from The Portuguese Catholic University.
Professional activities carried out during the last five years: Advisor to the Board of Directors and Coordinator of the Financial Department, Markets and Surveys of Banco Espírito Santo until 2004. Executive member of the Board of Directors of Banco Espírito Santo since March 2004 and Member of the Board of Directors of BES Investimento since 2005. Member of the Board of Directors of Portugal Telecom since 2006.
No. of shares held on 31/12/2009: 42,889
First appointment: March 2004
Mandate ends in: 2011

Bernard Delas
Academic qualification: Graduated in Economic Sciences from Université de Paris.
Professional activities carried out during the last five years: General Manager of Crédit Agricole Assurances since 2004. Member of the Board of Directors of Banco Espírito Santo since 2005 and Vice-Chairman of BES Vida and BES Seguros.
No. of shares held on 31/12/2009: 0
First appointment: March 2005
Mandate ends in: 2011 (handed in a letter of resignation dated January 27th, 2010).

Nuno Maria Monteiro Godinho de Matos
Academic qualification: Graduated in Law from Universidade Clássica de Lisboa.
Professional activities carried out during the last five years: practicing lawyer
No. of shares held on 31/12/2009: 0
First appointment: February 2006
Mandate ends in: 2011

João Eduardo Moura da Silva Freixa
Academic qualification: Graduated in Business Management from Instituto Superior de Economia, Lisbon; MBA from Universidade Nova de Lisboa.
Professional activities carried out during the last five years: Vice-Chairman of Caixa Geral de Depósitos and Caixa - Banco de Investimento (Caixa BI) and non executive member of the Board of Directors of EDP - Energias de Portugal from 2004 to 2005. Advisor to the Board of Directors of BES since October 2005 and Member of the Board of Directors of BES since 2006. Vice-Chairman of BES dos Açores since November 2006.
No. of shares held on 31/12/2009: 30,000
First appointment: September 2006
Mandate ends in: 2011

Bernard Octave Mary
Academic qualification: Degree in Etudes Comptables Supérieures – DESS Systèmes d'Information; MBA from University of Chicago.
Professional activities carried out during the last five years: General Manager of Crédit Agricole du Nord Est and CEO of Crédit Agricole. Member of the Board of Directors of BES since October 2008.
No. of shares held on 31/12/2009: 0
First appointment: October 2008
Mandate ends in: 2011

Michel Goutorbe

Academic qualification: Graduated in Law.

Professional activities carried out during the last five years: Vice General Manager of PREDICA from 2005 to 2007. Chairman of the Executive Committee of BES Vida and BES, Companhia de Seguros and Member of the Board of Directors of BES since 2007.

No. of shares held on 31/12/2009: 0

First appointment: July 2007

Mandate ends in: 2011

Pedro Mosqueira do Amaral

Academic qualification: Graduated in Business Management from the European University, Brussels, Belgium.

Professional activities carried out during the last five years: Member of the Board of Directors of BES GmbH since 2006 and Member of the Board of Directors of BES since 2008.

No. of shares held on 31/12/2009: 0

First appointment: March 2008

Mandate ends in: 2011

Isabel Maria Osório de Antas Mégre de Sousa Coutinho

Academic qualification: Graduated in Finance from Instituto Superior de Ciências Económicas e Financeiras (ISCEF), Lisbon, in 1969.

Professional activities carried out during the last five years: Chairman of Fundação Pão de Açúcar – Auchan until 2007. Member of the Board of Directors of BES since 2008. Chairman of Associação Novo Futuro (IPSS) since January 2009.

No. of shares held on 31/12/2009: 0

First appointment: March 2008

Mandate ends in: 2011

João de Faria Rodrigues

Academic qualification: Graduated in Company Organisation and Management from Instituto Superior de Economia, Lisbon (1980).

Professional activities carried out during the last five years: Certified Auditor since 1992. Senior Audit Manager with Grant Thornton & Associados – SROC, Lda from 1997 to 2008. Member of the Board of Directors of BES since 2008; member of the Audit Committee. Member of the Board of Directors of Partran – Sociedade Gestora de Participações Sociais, S.A., T-Vida Companhia de Seguros, S.A. and Seguros LOGO, S.A.

No. of shares held on 31/12/2009: 0

First appointment: March 2008

Mandate ends in: 2011

José Epifânio da Franca

Academic qualification: Graduated from Instituto Superior Técnico (IST) in 1978. PhD at the Imperial College of Science and Technology (London, UK) in 1985; in 1992 obtained the "agregado" academic title from Universidade Técnica de Lisboa; invited full professor at the Electronics and IT Department of the IST; affiliate professor at the Engineering School of the Porto University (FEUP); and Adjunct Professor at the Electronics Engineering School of the Hong Kong Chinese University.

Professional activities carried out during the last five years: founder of CHIPIDEA, which for several consecutive years ranked amongst the 500 European companies with better business development and job creation indicators (Europe 500). In 2007, when Chipidea was acquired by MIPS Technologies Inc. (Mountain View, California), a NASDAQ listed company, João Epifânio da Franca joined its Board of Directors and remained Chairman of the Board of Directors of CHIPIDEA's Portuguese subsidiary until September 2008. Member of the BES Board of Directors since 2008.

No. of shares held on 31/12/2009: 0

First appointment: March 2008

Mandate ends in: 2011

Luiz Carlos Trabuco Cappi

Academic qualification: Graduated from the São Paulo School of Philosophy, Sciences and Humanities (Brazil), with a latu sensu post-graduation in Social Psychology: Social Formation of Conscience, from the Post-Graduation School of Social Sciences of the Fundação Escola de Sociologia e Política de São Paulo.

Professional activities carried out during the last five years: CEO of Bradesco Seguros from 2003 to 2009, and member of the Board of Directors from March 1999 to March 2005. CEO and member of the Board of Directors of Banco Bradesco, S.A. since March 2009. Chairman of several companies of Organização Bradesco, and member of the Board of the General Meeting and managing director of Fundação Bradesco. Chairman of the Board of Directors of Odontoprev S.A., member of the Executive Board of the Brazilian Federation of Banks (FEBRABAN), executive member of the Board of Directors of Fundo Garantidor de Créditos – FGC, Vice-Chairman of the Board of Representatives of CNF and member of the Board of ANSP – Academia Nacional de Seguros e Previdência. Appointed member of the Board of Directors of Banco Espírito Santo, S.A. by the Extraordinary General Meeting of July 16th, 2009.

No. of shares held on 31/12/2009: 0

First appointment: July 2009

Mandate ends in: 2011

Bond and Share holdings of the Members of the Corporate Bodies

Shareholder/Bondholder	Securities	Securities held as of 31/12/2008	Transactions in 2009				Securities held as of 31/12/2009
			Date	Acquisitions	Disposals	Unit Price (EUR)	
Ricardo Espirito Santo Silva Salgado	BES shares	500,214	19/1/09	50,000		5.96	
			15/4/09	733,618		1.80	
			14/5/09		14,607	10.27*	
			28/12/09		7,385	12.60*	1,261,840
	Fiduprivate shares	20		0	0		20
José Manuel Pinheiro E. S. Silva	BES shares	158,725	15/4/09	211,630		1.80	
			14/5/09		10,710	10.27*	359,645
	Fiduprivate shares	20		20	0	0	20
António José Baptista do Souto	BES shares	28,795	3/3/09	64		5.00	
			21/4/09	38,478		1.80	
			14/5/09		10,710	10.27*	
			28/12/09		5,415	12.60*	51,212
	Bonds Besi Dual 5%	2,500	30/6/09	0	2,500	5.00	0
	Bonds BES 5,625% Jun 2014	0	5/6/09	1		50,000.00	1
	Bonds ES Invest PLC 23/12/2014	0	23/12/09	100		1,000.00	100
Jorge Alberto Carvalho Martins	BES shares	66,742	15/4/09	88,988	0	1.80	
			14/5/09		10,710	10.27*	145,020
Aníbal da Costa Reis de Oliveira	BES shares	328,000	15/4/09	437,333		1.80	
			28/10/09	4,667		4.89	
			20/11/09	16,494		4.85	
			9/12/09	13,506		4.41	800,000
	Bonds ES Invest PLC 5% 28/05/2010	25	13/10/09	0	25		0
	Bonds BESI Range Accrual	10,000	12/1/09	0	10,000	37.98	0
	Bonds BES Subord 2008 3ª S	400	4/3/09	0	400	1,000.00	0
	Bonds BES 5,625% Jun 2014	0	5/6/09	4		50,000.00	
			23/11/09		4	50,000.00	0
	Bonds BES Finance 2035	0	21/7/09	200		1,000.00	200
Manuel F. Moniz G. E.S. Silva	BES shares	1,064	15/4/09	1,420	0	1.80	2,484
José Maria Espirito Santo S. Ricciardi	BES shares	16,342	15/4/09	21,789		1.80	
			14/5/09		7,497	10.27	30,634
Jean-Luc Louis Marie Guinoiseau	BES shares	51,507	15/4/09	70,678	0	1.80	
			28/12/09	0	5,415	12.60*	116,770
Rui Manuel Duarte Sousa da Silveira	BES shares	30,462	15/4/09	40,615		1.80	
			14/5/09		10,710	10.27*	
			15/5/09		22,315	4.00	
			18/5/09		17,500	4.00	
			18/5/09		185	4.06	
			28/12/09		5,415	12.60*	14,952
Joaquim Aníbal B. Freixial de Goes	BES shares	49,327	15/4/09	67,323		1.80	
			14/5/09		32,000	4.00	
			14/5/09		10,710	10.27*	73,940
	Bonds BES Finance 2035	160		0	0		160
	BondsBES Subord 2008 3ª S	45		0	0		45
Pedro J. de Sousa Fernandes Homem	BES shares	23,345	15/4/09	31,126		1.80	
			14/5/09		10,710	10.27*	
			29/5/09		31,126	4.04	12,635
	Bonds BES 5,625% Jun 2014	0	29/5/09	20		50,000.00	20
	Bonds BES Finance	0	30/10/09	2,140		1,000.00	
		0	16/11/09	726		1,000.00	2,866
Ricardo Abecassis Espirito Santo Silva	BES shares	41,841	15/4/09	56,804		1.80	
			14/5/09		21,583	10.27*	
			21/5/09	317		4.04	
			28/12/09		10,913	12.60*	66,466
Amílcar Carlos Ferreira de Morais Pires	BES shares	24,291	15/4/09	60,251	0	1.80	
			14/5/09	0	6,238	10.27*	
			7/12/09	0	25,000	4.61	
			28/12/09	0	5,415	12.60*	
			31/12/09	0	5,000	4.55	42,889
José Manuel Ruivo da Pena	Bonds BES Finance 2035	60		0	0		60
João Eduardo Moura Silva Freixa	BES shares	0	15/4/09	52,243		1.80	
			6/5/09		22,243	4.10	30,000
	Bonds BES Finance 17/05/2011	30					30
José Albergaria Epifânio da Franca	Bonds BES Subord 2008 3ª S	1,000	4/3/09		1,000	1,000.00	0

Share holdings of senior officers

Shareholder	Shares held as of 31/12/2008	Transactions in 2009				Shares held as of 31/12/2009
		Date	Acquisitions	Disposals	Unit price/ EUR	
António Manuel R. Marques	21,124	15/4/09	28,165		1.80	
		14/5/09		9,250	10.27*	
		3/7/09		26,885	4.09	13,154
António Miguel Natário Rio-Tinto	1,750	15/4/09	642		1.80	
		22/12/09	2,500		4.53	4,892
Bernardo Leite Faria Espirito Santo	14,776	15/4/09	19,689		1.80	
		6/5/09		19,694	3.83	
		14/5/09		6,087	10.27*	8,684
Carlos Manuel Garcia Calvário	16,979	15/4/09	22,843		1.80	
		14/5/09		4,380	10.27*	
		28/12/09		2,750	12.60*	32,692
Eugénio Fernando Quintais Lopes	6,760	15/4/09	8,013		1.80	
		14/5/09		1,927	10.27*	
		28/12/09		1,225	12.60*	11,621
Francisco José V. H. dos Santos	16,044	15/4/09	21,392		1.80	
		14/5/09		7,360	10.27*	30,076
Isabel M. C. Almeida Bernardino	0	15/4/09	23,333		5.91	
		15/4/09	13,931		1.80	37,264
João Filipe C. Martins Pereira	13,835	15/4/09	18,446		1.80	
		12/5/09		2,000	4.33	
		14/5/09		5,152	10.27*	
		28/12/09		2,604	12.60*	22,525
Jorge Daniel Lopes da Silva	9,934	15/4/09	13,245		1.80	
		14/5/09		3,855	10.27*	19,324
José Alexandre M. Pinto Ribeiro	15,191	15/4/09	22,347		1.80	
		14/5/09		4,367	10.27*	
		30/11/09		10,047	4.66	23,124
Manuel José Dias de Freitas	10,043	15/4/09	13,309		1.80	
		14/5/09		3,567	10.27*	19,785
Miguel Beirão V. Almeida Carvalho	6,787	15/4/09	9,049		1.80	
		14/5/09		1,869	10.27*	13,967
Pedro Roberto Menéres Cudell	8,234	15/4/09	10,978		1.80	
		14/5/09		7,156	10.27*	
		28/12/09		3,619	12.60*	8,437
Rui José Costa Raposo	8,263	15/4/09	12,350		1.80	
		16/4/09		12,350	3.63	
		14/5/09		3,067	10.27*	5,196
Rui Manuel Fernandes Pires Guerra	11,392	15/4/09	15,643		1.80	
		14/5/09		2,514	10.27*	24,521

*Acquisitions made under the scope of the Share Based Incentive System «SIBA», established for all the employees of Banco Espírito Santo Group.
According to the SIBA Regulations, which were approved by the BES's General Meeting of June 20th, 2000, at the end of each period of validity of the SIBA, each beneficiary is entitled to sell the shares purchased from BES and BES undertakes to buy them for the highest of the following unit prices:
a) closing price of those shares in the stock exchange session immediately preceding the date of sale;
b) the amount resulting from dividing the total acquisition cost of the shares for the number of shares acquired.
In all the sales shown in the above table the Directors and other senior officers of BES opted for the second possibility, i.e., they sold their shares for the amount resulting from dividing the total acquisition cost of the shares for the number of shares acquired, and therefore obtained no economic benefit in so far as the selling price was exactly the same as the purchase price.

II.11 Duties that the members of the Board of Directors carry out in other companies

Duties that the members of the Board of Directors carry out in other companies as well as those carried out in companies of the same holding

Alberto Alves de Oliveira Pinto

Holds no positions in other companies.

Ricardo Espírito Santo Silva Salgado

A. Corporate positions held in companies of BES Group

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Chairman)
BES África, SGPS, S.A. (Chairman)
BES Finance, Ltd. (Member)
BEST- Banco Electrónico de Serviço Total, S.A. (Chairman)
ES Tech Ventures - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
ESAF- Espírito Santo Activos Financeiros - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Bank (Member)
Espírito Santo - Empresa de Prestação de Serviços 2, ACE (Chairman)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors

Banco Bradesco, S.A. (Member)
Banque Espírito Santo et de la Vénétie (Member)
Banque Privée Espírito Santo, S.A. (Member)
Bespar- Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Casa dos Pórticos- Sociedade de Administração de Bens, S.A. (Chairman)
ES Bankers (Dubai) Limited (Chairman)
Espírito Santo Control, S.A. (Member)
E.S. Holding Administração e Participações, S.A. (Vice-Chairman)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Financial Group, S.A. (Chairman)
Espírito Santo International, S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Saúde - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Services, S.A (Member)
Partran- Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade de Administração de Bens Pedra da Nau, S.A. (Chairman)
NYSE Euronext (member of the Board of Directors and of the Human Resources & Compensation Committee)

Jean-Fréderic Marie Jacques de Leusse

Corporate positions held in companies outside BES Group

Board of Directors

AMUNDI (Member) - (Notes: (i) created on 31.12.2009, former Crédit Agricole Asset Management; (ii) terminated functions on 31.12.2009)
AMUNDI Group (Member) - (Note: created on 31.12.2009, former Crédit Agricole Asset Management Group)
BESPAR – Sociedade Gestora de Participações Sociais, S.A. (Member)
BGPI (Member)
Bank Saudi Fransi (Saudi Arabia) (Member)
CACEIS (Member)
Crédit Agricole Egypt S.A.E. (Vice-Chairman)
Crédit Agricole Luxembourg (Chairman)
Crédit Agricole, S.A. (Executive Vice-President in charge of Métiers Spécialisés, member of the Executive Committee, member of the General Management Board)
De Dietrich (France) (Member of the Supervisory Board)
Emporiki Bank (Greece) (Chairman)
FGA Capital S.p.A. (Chairman)
FINAREF (Chairman)
Sofinco (Chairman)
Union de Banques Arabes et Françaises (Vice - Chairman)
Calyon (Member of the Board of Directors and Executive Committee) (Note: on 06.02.2010 the company changed its name to Crédit Agricole Corporate and Investment Bank)

José Manuel Pinheiro Espírito Santo Silva

A. Corporate positions held in companies of BES Group

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Member)
BES África, SGPS, S.A. (Member)
ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Bank (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Banque Espírito Santo et de la Vénétie, S.A. (Member)
Banque Privée Espírito Santo, S.A. (Chairman)
Espírito Santo Control, S.A. (Member)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)
Espírito Santo Financial Group, S.A. (Vice-Chairman)
Espírito Santo International, S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Services, S.A (Member)
Europ Assistance – Companhia Portuguesa Seguros Assistência, S.A. (Member)
Fiduprivate – Sociedade de Serviços, Consultoria, Administração de Empresas, S.A. (Chairman)

António José Baptista do Souto

A. Corporate positions held in companies of BES Group

Board of Directors

BES África, SGPS, S.A. (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Angra Moura – Sociedade de Administração de Bens, S.A. (Chairman)
Companhia de Seguros Tranquilidade, SA (Member)
SIBS – Sociedade Interbancária de Serviços, S.A. (Member)

Jorge Alberto Carvalho Martins

Corporate positions held in companies outside BES Group

Fiscal Board

Agência de Desenvolvimento Regional de Entre-o-Douro e Tâmega (Chairman)

Board of Directors

Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (Member)

Higher Council

Primus, Promoção e Desenvolvimento Regional, S.A. (Member)

Aníbal da Costa Reis de Oliveira

Corporate positions held in companies outside BES Group

Board of Directors

ACRO, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Diliva – Sociedade de Investimentos Imobiliários, S.A. (Chairman)
Espírito Santo Financial Group, S.A. (Member)
Espírito Santo Financial (Portugal), Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo International, S.A. (Member)
Olinveste, Sociedade Gestora de Participações Sociais, Lda. (Member)
Saramagos – Sociedade Produtora de Energia, S.A. (Chairman)
Olinerg – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Oliren – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Manuel Fernando Moniz Galvão Espírito Santo Silva

A. Corporate positions held in companies of BES Group

Board of Directors

Espírito Santo Bank (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Higher Council of Espírito Santo Group (Member)
Academia de Música de Santa Cecília (Non Executive Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Rio Forte Investments, SA (Chairman)
Espírito Santo Control, S.A. (Member)
Espírito Santo Financial Group, S.A. (Member)
Espírito Santo Industrial S.A. (Chairman)
Espírito Santo International, S.A. (Member)
Espírito Santo Resources, Limited (Chairman of the Executive Committee)
Espírito Santo Resources (Portugal), S.A. (Member)
Espírito Santo Services, S.A (Member)
Espírito Santo Tourism (Europe), S.A. (Chairman)
Euroamerican Finance Corporation, Inc. (Chairman)
Herdade da Comporta – Actividades Agro Silvícolas e Turísticas, S.A. (Chairman)
Santogal – Sociedade Gestora de Participações Sociais, S.A. (Member)
Sociedade de Investimentos Imobiliários Sodim, S.A. (Member)
Sapec, S.A. (Member)

Board of General Meeting

Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade Imobiliária e Turística da Quinta do Peru, S.A. (Chairman)

José Maria Espírito Santo Silva Ricciardi

A. Corporate positions held in companies of BES Group

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Vice-Chairman and Chairman of the Executive Committee)
BES África, SGPS, S.A. (Member)
BES Investimento do Brasil, S.A. (Chairman)

Board of General Meeting

ESAF – Espírito Santo Gestão de Patrimónios, S.A (Vice-Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors

Espírito Santo Financial Group S.A. (Member)

General and Supervisory Board

EDP – Energias de Portugal, S.A (Member)

Board of General Meeting

Espart – Espírito Santo Participações Financeiras – Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

Fiscal Board
Sporting Clube de Portugal (Vice-Chairman)
Sporting Sociedade Anónima Desportiva, SAD (Member)

Jean-Luc Louis Marie Guinoiseau
A. Corporate positions held in companies of BES Group
Board of Directors
Espírito Santo – Informática, ACE (Chairman)
ES Recuperação de Crédito, ACE (Chairman)

Rui Manuel Duarte Sousa da Silveira
A. Corporate positions held in companies of BES Group
Board of General Meeting
AVISTAR – S.G.P.S., S.A. (Chairman)
Banco Espírito Santo dos Açores, S.A. (Chairman)
BES África, SGPS, S.A. (Chairman)
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Investimento Imobiliário, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Investimento Mobiliário, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Pensões, S.A. (Chairman)
ESAF – Espírito Santo Participações Internacionais, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Capital Mais – Assessoria Financeira, S.A. (Chairman)
ES Tech Ventures – SGPS, S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
ESAF – Espírito Santo Gestão de Patrimónios, S.A (Chairman)
Espirito Santo Ventures – Sociedade de Capital de Risco, S.A (Chairman)

B. Corporate positions held in companies outside BES Group
Board of Directors
Cimigest – SGPS, S.A. (Member)
Sociedade de Administração de Bens, Casa de Bons Ares, S.A. (Member)
Sociedade de Silvicultura Monte do Arneirinho, Lda. (Member)
Fiscal Board
Companhia de Seguros Tranquilidade, S.A. (Member)
Board of General Meeting
BES, Companhia de Seguros, S.A. (Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Secretary)
ESEGUR – Empresa de Segurança, S.A. (Vice-Chairman)
Espírito Santo Equipamentos de Segurança, S.A. (Chairman)
Esumédica – Prestação de Serviços Médicos, S.A. (Chairman)
Europ Assistance – Companhia Portuguesa de Seguros de Assistência, S.A. (Vice-Chairman)
Espírito Santo Saúde – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
TC Turismo Capital, SCR, SA. (Chairman)
TF Turismo Fundos – SGFII, S.A. (Chairman)
Oblog Consulting, S.A. (Chairman)
Partran – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
T-Vida – Companhia de Seguros, S.A. (Chairman)

Joaquim Aníbal Brito Freixial de Goes
A. Corporate positions held in companies of BES Group
Board of Directors
Espírito Santo Ventures - Sociedade de Capital de Risco, S.A. (Member)

B. Corporate positions held in companies outside BES Group
Board of Directors
BES – Companhia de Seguros, S.A (Member)
Glintt – Global Intelligent Technologies, SGPS, S.A. (Member)
Portugal Telecom, Sociedade Gestora de Participações Sociais, S.A. (Member)
Fiscal Board
Centro Social e Paroquial de Nossa Senhora da Ajuda (Chairman)
Fundação da Universidade Católica Portuguesa (Chairman)

Pedro José de Sousa Fernandes Homem
A. Corporate positions held in companies of BES Group
Board of Directors
AVISTAR – SGPS, S.A. (Member)
Banco Espírito Santo do Oriente, S.A. (Member)
BES África, SGPS, S.A. (Member)
ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Bank (USA) (Member)

B. Corporate positions held in companies outside BES Group
Board of Directors
Spinnaker Global Opportunity Fund Ltd. (Director)
Other positions
Advita – Associação para o Desenvolvimento de Novas Iniciativas para a Vida (Substitute Director)

Luís António Burnay Pinto de Carvalho Daun e Lorena
Corporate positions held in companies outside BES Group
Board of Directors
Campeque – Compra e Venda de Propriedades, Lda. (Member)
Other positions
BES Seguros, Companhia de Seguros, S.A. (Chairman of Remuneration Committee)
BES – Vida, Companhia de Seguros, S.A. (Chairman of Remuneration Committee)

Ricardo Abecassis Espírito Santo Silva
A. Corporate positions held in companies of BES Group
Board of Directors
AVISTAR – S.G.P.S., S.A. (Member)
Banco Espírito Santo de Angola, SARL (Chairman)
Banco Espírito Santo de Investimento, S.A. (Vice-Chairman)
BES Finance Limited (Member)
BES Investimento do Brasil, S.A. (Member)
Espírito Santo Investimentos, S.A. (Brazil) (Chairman)
Espírito Santo Bank (USA) (Vice-Chairman)
Executive Committee
BES Investimento do Brasil, S.A. (Chairman)
Espírito Santo Investimentos, S.A (Brazil) (Chairman)
GESPAR S/C Ltda. (Brazil) (Member)
Fiscal Board
Banco Espírito Santo do Oriente, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group
Board of Directors
Agriways, S.A. (Brazil) (Vice-Chairman)
Bradespar, S.A. (Brazil) (Member)
Câmara Portuguesa de Comércio no Brasil (Member)
Europ Assistance (Brazil) (Member)
Espírito Santo Control, S.A. (Member)
Espírito Santo Industrial (Member)
Espírito Santo International, S.A (Member)
Espírito Santo Property (Brazil), S.A., (Member)
Espírito Santo Resources Limited (Member)
Euroamerican Finance Corporation, Inc. (BVI) (Member)
Novagest Assets Management Ltd. (Member)
Companhia Brasileira de Desenvolvimento Imobiliário Turístico – Invest Tur Brasil (Member) (Note: on 12.01.2010 the company changed its name to BHG – Brazil Hospitality Group)
Monteiro Aranha, S.A. (Brazil) (Member)
Pojuca, S.A. (Brazil) (Chairman)
Ushuaia – Gestão e Trading International Limited (Member)
Executive Committee
Associação Espírito Santo Cultura (Brazil) (Member)
Companhia Agrícola Botucatu (Chairman)

E.S. Holding Administração e Participações, S.A. (Brazil) (Chairman)
ESAI – Espírito Santo Activos Imobiliários Ltda. (Brazil) (Member)
ESAP Brasil Agro-Pecuária Ltda. (Member)
ESAP Espírito Santo Agro-Pecuária, S.A. (Uruguay) (Member)
ESCAE – Administração e Participações Ltda. (Brazil) (Member)
ES Consultoria, Ltda. (Brazil) (Member)
InterAtlântico S.A. (Brazil) (Chairman)
Pojuca Administração, S.A. (Brazil) (Chairman)
Saramagos, S.A. Empreendimentos e Participações (Brazil) (Member)
Fiscal Board
Banco Bradesco, S.A. (Member)
Advisory Board
Associação Brasileira de Bancos Internacionais, S.A (Member)

José Manuel Ruivo da Pena

Corporate positions held in companies outside BES Group
Fiscal Board
BES, Companhia de Seguros, S.A. (Chairman)
BES – Vida, Companhia de Seguros, S.A. (Chairman)
Companhia de Seguros Tranquilidade, S.A. (Chairman)
Partran – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Amílcar Carlos Ferreira de Morais Pires

A. Corporate positions held in companies of BES Group
Board of Directors
AVISTAR – S.G.P.S., S.A. (Chairman)
Bank Espírito Santo International Limited (Chairman)
Banco Espírito Santo de Investimento, S.A. (Member)
Banco Espírito Santo do Oriente, S.A. (Member)
BES África, SGPS, S.A. (Member)
BES Finance Limited (Member)
ESAF – Espírito Santo Activos Financeiros – Sociedade Gestora de Participações Sociais, S.A. (Member)
BIC – International Bank, Limited (Chairman)
Espírito Santo PLC (Member)
Espírito Santo – Empresa de Prestação de Serviços, 2, ACE (Member)
ES Tech Ventures – Sociedade Gestora de Participações Sociais, S.A. (Member)

B. Corporate positions held in companies outside BES Group
Board of Directors
BES – Vida, Companhia de Seguros, S.A (Member)
Portugal Telecom, SGPS, S.A. (Member)

Bernard Delas

Corporate positions held in companies outside BES Group
Board of Directors
BES – Companhia de Seguros, S.A (Vice-Chairman)
BES – Vida, Companhia de Seguros, S.A (Vice-Chairman)
Crédit Agricole Assurances S.p.A. (Vice-Chairman)
Crédit Agricole Life a.d.o. (Serbia) (Chairman of the Supervisory Board)
Crédit Agricole Risk Insurance (Luxembourg) (Member)
Crédit Agricole Vita S.p.A. (Vice-Chairman)
Gimar Finance SCA (France) (Member of the Supervisory Board)
Pacifica (France) (Member)
CACI Life S.A. (Member) (Note: terminated functions on 31.12.2009)
CACI Non Life, S.A. (Member) (Note: terminated functions on 31.12.2009)
CACI RE, S.A. (Member) (Note: terminated functions on 31.12.2009)
Space Holding (Ireland) (Director) (Note: terminated functions on 31.12.2009)
Other positions
Crédit Agricole Assurances (Head of International Division)

Nuno Maria Monteiro Godinho de Matos

Holds no positions in other companies.

João Eduardo Moura da Silva Freixa

Corporate positions held in companies of BES Group
Board of Directors
Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)

Bernard Octave Mary

A. Corporate positions held in companies outside BES Group
Board of Directors
Association Industries et Agro-Ressources (Vice-Chairman)
Cariparma e Piacenza S.p.A. (Member)
Crédit Agricole Creditor Insurance (Member)
Crédit Agricole Egypt S.A.E (Member)
Crédit Agricole, S.A. (Executive Vice President in charge of the commercial banking area (LCL, international commercial banking, micro finance, member of the Executive Committee, member of the General Management Board)
Crédit du Maroc (Member of the Supervisory Board)
Emporiki Bank (Member)
LCL – Le Credit Lyonnais (Member)
Le Clos Barrois (Manager)
LESICA (Chairman)

Michel Joseph Paul Goutorbe

A. Corporate positions held in companies of BES Group
Board of Directors
ESAF – Espírito Santo Activos Financeiros – Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Member)
ES Tech Ventures – Sociedade Gestora de Participações Sociais, S.A. (Member)

B. Corporate positions held in companies outside BES Group
Board of Directors
BES – Vida, Companhia de Seguros, S.A (Member and Chairman of the Executive Committee)
BES, Companhia de Seguros, S.A. (Member and Chairman of the Executive Committee)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Portuguese-French Chamber of Commerce (Member)

Pedro Mosqueira do Amaral

A. Corporate positions held in companies of BES Group
Board of Directors
BES Beteiligungs GmbH (Member)
Bank Espírito Santo International Limited (Member)

B. Corporate positions held in companies outside BES Group
Board of Directors
Banque Espírito Santo et de la Vénétie (Member)

Isabel Maria Osório de Antas Mégre de Sousa Coutinho

Corporate positions held in companies outside BES Group
Associação Novo Futuro (IPSS) (Chairman of the Board of Directors)
Instituto de Negociação e Vendas (Member of the Advisory Board)

João de Faria Rodrigues

Corporate positions held in companies outside BES Group
Fiscal Board
Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)
T-Vida Companhia de Seguros, S.A. (Member)
Seguros LOGO, S.A. (Member)

José de Albuquerque Epifânio da Franca

Corporate positions held in companies outside BES Group
Board of Directors
Auxineon Pte Ltd. (Singapore) (Member)

Luiz Carlos Trabuco Cappi

Corporate positions held in companies outside BES Group
Board of Directors
Banco Bradesco S.A. (Member)
Bradesco Leasing S.A. Arrendamento Mercantil (Member)
Bradespar S.A. (Member)
Cidade de Deus – Companhia Comercial de Participações (Member)
Elo Participações e Investimentos S.A. (Member)
Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (Member)
Odontoprev, S.A. (Chairman)
Fundo Garantidor de Créditos – FGC (Executive Member)
Deliberating Board
Caixa Beneficente dos Funcionários do Bradesco (Member)
Management Board
Federação Brasileira de Bancos (FEBRABAN) (Member)
Executive Committee
Banco Bradesco S.A. (Chairman)
Banco Bankpar S.A. (Chairman)
Banco Bradesco BBI S.A. (Chairman)
Banco Bradesco Cartões S.A. (Chairman)
Banco Bradesco Financiamentos, S.A. (Chairman)
BEM – Distribuidora de Títulos e Valores Mobiliários Ltda. (Chairman)
Bradesco Administradora de Consórcios Ltda. (Chairman)
Bradesco Leasing S.A. Arrendamento Mercantil (Chairman)
Bradescor Corretora de Seguros Ltda. (Chairman)
Bram – Bradesco Asset Management S.A.DVTM (Chairman)
Elo Participações e Investimentos S.A. (Member)
Fundação Bradesco (Managing Director)
Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (Managing Director)
NCF Participações S.A. (Member)
Nova Cidade de Deus Participações S.A. (Member)
Top Club Bradesco, Segurança, Educação e Assistência Social (Member)
Board of the General Meeting
Fundação Bradesco (Member)
Other Positions
ANSP – Academia Nacional de Seguros e Previdência (Member do of the Institutional Board)
Association Internationale pour l'Étude de l'Assurance – Association de Genève, Geneva, Switzerland (Executive Member)
Banco Bradesco S.A. (Coordinator of the Integrated Risk Management and Capital Allocation Committee and Member of the Remuneration Committee)
Confederação Nacional das Instituições Financeiras – CNF (Vice Chairman of the Council of Representatives)
Federação Brasileira de Bancos (FEBRABAN) (Member of the Advisory Board)

II.12 to II.17

Non applicable.

II.18 Remuneration Policy

Description of the remuneration policy and the alignment of the Directors' interests with those of the company and the performance assessment, distinguishing executive from non-executive Directors, a summary and reasoning behind the company's policy on compensations negotiated on contracts or via transactions for cases of impeachment or severance pay

Remuneration Policy

The remuneration of the members of BES' corporate bodies is determined by the Remuneration Committee. However, in order to ensure the transparency of the remuneration setting process, every year the Remuneration Committee submits to the general meeting, for approval, a proposal setting out the remuneration policy of the corporate bodies. The remuneration of the Remuneration Committee is set by the General Meeting, upon a proposal of the shareholder Bespar.

The Remuneration Committee submitted the following proposal to the General Meeting of March 16th, 2009:

1. The members of the Chair of the General Meeting shall receive a fixed monthly remuneration paid twelve times a year.
2. The members of the Audit Committee shall receive a fixed remuneration paid fourteen times a year.

The members of the Board of Directors shall be remunerated under the following terms:

a) The remuneration of the members of the Executive Committee shall consist of a fixed component and possibly a variable component, which may never exceed five percent of the individual net income for the financial year.
b) The members of the Executive Committee shall also benefit from a Variable Remuneration Plan for the period of 2008 to 2010 (PPRV 2008-2010) which consists in the attribution of a right to receive a variable remuneration tied to the potential increase in the BES share price.
c) The members of the Executive Committee who hold executive positions in the management body of companies in a control and/or group relationship with BES may be remunerated by these companies, in which case they may not be remunerated for carrying out executive functions in BES.
d) The fixed and variable remuneration of the members of the Executive Committee shall be aligned to the strategic objectives of the Group, although taking into account the current practices in the Portuguese market.
e) The non executive members of the Board of Directors who are not part of the Audit Committee are remunerated as follows:
   I. non executive Board members receive a fixed amount attendance fee for each Board meeting attendance;
   II. non executive Board members considered as independent receive a fixed monthly remuneration, paid twelve times per year;
   III. members who hold executive positions in the management body of companies in a control and/or group relationship with BES, or who carry out specific functions assigned to them by the Board of Directors, may be remunerated by these companies or by BES, in accordance with the nature of these functions.

The proposal on the remuneration policy for 2010, such as will be submitted to the General Meeting of April 6th, 2010, is included as an Annex to this Report.

The Board of Directors also submitted to the appreciation of the General Meeting of March 16th, 2009, the following remuneration policy of the top management officers (also applying to the Bank's other senior officers):

«For 2009, BES's Board of Directors decided that, in view of the current context of financial and economic crisis, it was necessary to implement a set of cost contention measures extending to the remunerations of its top management officers. To this end, the remuneration policy for these employees in 2009 shall adopt as a guiding principle that fixed remunerations will not be increased and variable remunerations will be reduced by 10% of their amount in 2008, when they had been reduced by 34% relative to 2007. In addition, no promotions of top management staff, either internally or through external admissions, have been budgeted».

There are no compensations negotiated on contracts or via transactions for cases of impeachment or severance pay.

II.19 Composition of the Remuneration Committee

Indication of the composition of the Remuneration Committee or similar body, whenever applicable, identifying the relevant members that are likewise members of the Board of Directors, as well as their spouses, next of kin up to and including third-degree lineage

The Remuneration Committee of Banco Espírito Santo, elected by the General Meeting of March 31st, 2008 for the 2008/2011 four-year mandate, has the following composition:

Rita Maria Lagos do Amaral Cabral

A practicing lawyer, Rita Maria Lagos do Amaral Cabral was a founder and is the Director of Sociedade Amaral Cabral & Associados, a law firm; she is invited assistant professor at the Law School of the Portuguese Catholic University, member of the National Ethics Council for the Life Sciences and a non-executive director of Cimigest, SGPS, S.A. and Semapa – Sociedade de Investimento e Gestão, SGPS, S.A.

Daniel Proença de Carvalho

A practising lawyer, Daniel Proença de Carvalho was Chairman of the Strategic Board of Hospital Amadora-Sintra Sociedade Gestora, S.A from 2007 to 2008, and is currently Chairman of the Board of Directors of ZON Multimédia, Chairman of the Advisory Board of Explorer Investments - Sociedade de Capital de Risco, a venture capital firm, member of the Board of Directors or SINDCOM - Sociedade de Investimentos na Indústria e Comércio and Chairman of the Board of Curators of the D. Anna de Sommer Champalimaud e Dr. Carlos Montez Champalimaud Foundation since 2005.

Jacques dos Santos

Senior Partner with MAZARS AUDITORES PORTUGAL since 1991, Jacques dos Santos was Chairman of the Fiscal Board of Banco Espírito Santo from 1992 to 2006 and is Chairman of the Fiscal Board of BESPAR since 1992. He is also Chairman of the Fiscal Boards of Fromageries BEL (since 1995) and Solubema – Sociedade luso-belga de Mármores (since1993). He is a member of the Fiscal Board of ESAF – SGPS SA.

None of the members of BES's Remuneration Committee is a member of the Board of Directors or has any family connection with any of its members.

A representative of the Remuneration Committee is present in every General Shareholders' meeting.

II.20 Remuneration of the Members of the Board of Directors

Indication of the individual and collective remuneration that amply includes performance pay bonuses earned by the members of the Board of Directors. The following information shall also be made available: a) Explanation on the amount concerning the variable and fixed components of the directors' remuneration, as well as the possible instalment payment of the variable component; b) The distinction between the amounts owing to the executive directors and to the non-executive directors.

BES' Board of Directors is composed of 27 members, of whom 11 are executive members and 16 are non executive members. From the non executive directors, 3 are members of the Audit Committee and two (Ricardo Abecassis Espírito Santo Silva and Pedro Mosqueira do Amaral) hold executive positions in other companies of BES Group.

The remuneration of BES's Board of Directors follows the criteria referred in point II.18 above.

The members of the Executive Committee also benefit from the 2008-2010 Variable Remuneration Plan (PPRV 2008-2010), which consists in the allocation of a right to receive a variable remuneration tied to the potential increase in the BES share price (please see item "c)" below).

The fixed and variable remunerations of the members of the Executive Committee are established by the Remuneration Committee, which is elected by the General Meeting. The criteria are to align these remunerations to the Group's strategic objectives, also taking into account current practices in the Portuguese market, as described in point II.18 of this Report.

The following table sets out the aggregate remuneration of the members of the Board of Directors:

EUR thousand

	2008	2009	Change
Executive Committee	12,651	9,641	-24%
Fixed Component	3,808	3,868	2%
Variable Component	8,843	5,773	-35%
Audit Committee	765	717	-6%
Other	971	1,833	94%
Board of Directors	**14,387**	**12,192**	**-15%**

The amounts earned for functions exercised on the Board of Directors of other companies of BES Group are included in the calculation of the remuneration of the members of BES's Board of Directors. The total amount paid by other companies of BES Group to members of BES's Board of Directors was EUR 1,880,000.

The remuneration of the executive Board members represented 79% of the overall remuneration paid to all the members of the Board of Directors.

Remunerations paid in 2009 to each of the members of the Board of Directors:

EUR thousand

	BES			Total BES	Other BES Group firms		Total other	Total remuneration		Total
	Fixed		Variable		Fixed	Variable		Fixed	Variable	
	Salary	Subsidies and other								
Ricardo Espírito Santo Salgado	435	12	603	1,051	3		3	450	603	1,053
José Manuel Espírito Santo	348	12	504	865	3		3	363	504	867
António Souto	348	7	504	860				356	504	860
Jorge Martins	348	6	504	858				354	504	858
José Maria Espírito Santo Ricciardi				0	226	634	860	226	634	860
Jean-Luc Guinoiseau	348	2	504	854				350	504	854
Rui Silveira	348	6	504	858				354	504	858
Joaquim Goes	348	5	504	858				354	504	858
Pedro Homem	348	3	504	855	3		3	353	504	857
Amílcar Morais Pires	348	4	504	857				353	504	857
João Freixa	348	4	504	857	2		2	355	504	859
Total for the Executive Committee	**3,571**	**62**	**5,139**	**8,772**	**236**	**634**	**870**	**3,868**	**5,773**	**9,641**
José Pena	239			239				239		239
Luis Daun e Lorena	239			239				239		239
João Faria Rodrigues	239			239				239		239
Total for the Audit Committee	**717**	**0**	**0**	**717**	**0**	**0**	**0**	**717**		**717**
Alberto Oliveira Pinto	180			180				180		180
Jean Frederic de Leusse		11		11				11		11
Aníbal de Oliveira		25		25				25		25
Manuel Fernando Espírito Santo		25		25				25		25
Bernard Delas		25		25				25		25
Michel Goutorbe		29		29				29		29
Nuno Godinho de Matos		29		29				29		29
Ricardo Abecassis Espírito Santo		15		15	265	272	537	280	272	552
Bernard Octave Mary		25		25				25		25
Pedro Amaral	133	22		155	135	338	473	290	338	628
José Epifânio da Franca	40			40				40		40
Isabel Sousa Coutinho	40			40				40		40
Luiz Carlos Cappi		4		4				4		4
Mário Mosqueira do Amaral			110	110				0	110	110
José Ferreira Neto			110	110				0	110	110
Total for the Other Board Members	**393**	**210**	**220**	**823**	**400**	**610**	**1010**	**1003**	**830**	**1,833**
Total for the Board of Directors	**4,681**	**272**	**5,359**	**10,312**	**636**	**1,244**	**1,880**	**5,589**	**6,603**	**12,192**

The variable remuneration paid by BES in 2009 by way of bonuses totalled EUR 5,359,000, as approved by the General Meeting of March 16th, 2009. Such remuneration represents 2.53% of the individual net income in 2008. This amount includes EUR 220,000 relative to the bonuses awarded to Board members Mário Mosqueira do Amaral and José Ferreira Neto, who terminated their mandate on March 31st, 2008 but were still executive directors of the Bank until that date.

c) Sufficient information on the criteria on which any right to shares, share options or the variable component of the remuneration are based;

The General Meeting of March 30th, 2008 approved the Variable Remuneration Plan – PPRV 2008-2010, which consists in the allocation of a right to receive a variable remuneration tied to the increase in the BES share price in the 3-year period ending in 2010.

Each beneficiary of the Plan is allocated a certain number of units of account (these are not shares) which will form the basis for calculating the variable remuneration payment.

The PPRV 2008-2010 involves the issuance of a maximum of 5,000,000 (five million) units of account, to be divided among all the beneficiaries. This number may be exceeded as a result of adjustments which may become necessary.

The variable remuneration to be paid to each beneficiary will be the amount in Euro that results from the application of the following formula:
VR = (Final Value – Initial Value) x N
Where:
VR = Variable Remuneration
Final Value = the simple arithmetic mean of the closing price of the BES share on Euronext Lisbon Stock Exchange (or the exchange that succeeds it by virtue of its integration into another, or other, stock exchanges) in the 10 days of trading prior to the End Date.
Initial Value = the reference unit value for each unit of account allocated, as defined on the Start Date. This Initial Value can be adjusted during the period of the plan, under the terms set forth in Clause Six. The Initial Value was fixed at EUR 6.64 by the Board of Directors (this value was fixed following the capital increase carried out in 2009).
N = number of units of account allocated to each beneficiary and subject to adjustment under the terms of Clause Six of the Plan.
The beneficiaries receive the variable remuneration as a performance related bonus, to be paid into their normal salary account at the end of the first month following the End Date, after deduction of the applicable taxes.

The following are eligible to become beneficiaries of the PPRV 2008-2010:
a) Members of the Executive Committee of BES's Board of Directors.
b) Permanent employees of the BES Group with a valid employment contract

It is the duty of BES's Board of Directors (the "BoD") to execute the PPRV 2008-2010.

Upon a proposal from BES's Executive Committee, it is the duty of the BoD to select the beneficiaries and decide the division of units among them. The decision of the BoD will need to be ratified by BES's Remuneration Committee with regard to the units of account to be allocated to the members of the Executive Committee.

PPRV 2008-2010 replaced the previous incentive system – the Share Based Incentive System (SIBA) – which had been approved in 2000 and was terminated in 2008, with only some of its issues remaining outstanding up to maturity.

d) Sufficient information on the relation between remuneration and performance; e) The main factors and reasons for any such annual bonus scheme or any other non-financial benefits;

Only the members of the Executive Committee receive a variable remuneration, defined by the Remuneration Committee and approved by the General Meeting. Members of all other corporate bodies receive a fixed remuneration only.

The performance-linked factors determine the variable share of the remuneration, which is established on an annual basis and aligned to the Group's strategic objectives, as well as the possible remuneration arising from execution of the PPRV 2008-2010, as described in points II.18 and II.20.

There are no non-cash benefits attributed to the members of the Board of Directors.

f) The allotment of shares and/or rights to acquire share options and/or any other incentive system involving shares;

There was no scheme in place in 2009 for the allotment of shares or options to purchase shares, but only the PPRV 2008-2010, described above, which replaced the Share Based Incentive System (SIBA).

g) Remuneration paid in the form of a share in the profits and/or the payment of bonuses and the rationale behind the act of awarding such bonuses and/or share in profits;

The variable component of the remuneration of the executive Board members is paid in the form of a share in the profits of the Company, which, as referred in point II.18, cannot exceed 5% of BES's individual net income for the financial year. In 2009 the executive Board members received a 2.53% share of BES's individual net income in 2008 (or to a 1.3% share of the consolidated net income), corresponding to EUR 5,359,000.

h) Compensation paid or owed to former executive directors in relation to early contract termination;

In 2009 no indemnities were paid to ex-Board Members.

i) Amounts paid on any basis by other companies in a group relationship or exercising control over the company

The total amount paid by other companies of BES Group to the BES Board Members was EUR 1,880,000.

k) Description of the main characteristics of the supplementary pension or retirement schemes set up for directors;

The members of the Board of Directors are entitled to receive retirement pensions or complementary pension benefits if they were members of the Executive Committee.

The main points of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability may be summed up as follows:

a. The right to receive a retirement pension or complementary pension benefits falls due on reaching sixty five years of age, or twenty five years of professional activity, or in the event of disability, when disability occurs.
b. The right to receive retirement pension or complementary pension benefits may be brought forward to the age of fifty five, providing the board member has served on BES' Board of Directors for a minimum period of nine consecutive or non consecutive years. Positions held in the senior management or Board of Directors of the former "Banco Espírito Santo e Comercial de Lisboa, S.A." count for purposes of calculating seniority in the post."
c. Complementary pension benefits may exist as a way of topping up other retirement schemes that may be granted under any other social security system.

In any case, retirement pensions or complementary pension benefits shall never exceed the pensionable salary of the board member in question, although they may be of a lower amount. The pensionable salary corresponds to one hundred per cent of the last annual gross remuneration paid to the board member in question.

l) An estimate of the non-financial benefits considered as remuneration which do not fall under the categories listed above.

There are no non-financial benefits considered as remuneration attributed to the members of the Board of Directors.

II.21 Amounts paid should the duties cease during the mandate

Individual information on the amounts payable, regardless of their nature, should the duties cease during the respective mandate, whenever they surpass the monthly salary by twofold

No such payments were made in 2009.

II.22 Irregularities disclosure policy

Information on the irregularities disclosure policy adopted by the Company

The broad guidelines of BES's policy for the reporting of irregularities are given below:

a) **Complementary nature:** the reporting of irregularities by BES employees shall only take place when the institutional mechanisms (audits and inspections) fail to function or do not function in a timely manner.
b) **Categories of employees subject to the obligation to inform:** all BES employees.
c) **Anonymous reporting:** anonymous communications shall not be admitted or taken into account, however absolute confidentiality is guaranteed with regard to the identity of the reporting employee, providing he/she so requests.
d) **Non retaliation:** no measures whatsoever shall be taken against employees who report irregular behaviours. However, they should bear in mind that when reporting such practices, specific behaviours and the alleged cause of irregularity must be indicated, no vague allegations against people being admitted.
e) **Entity that collects the notifications:** the Audit Committee, under the terms of the law.
f) **Entity that investigates the notifications:** depending on the matter in hand, the Audit Committee entrusts the investigation process to the Audit Department or to the Compliance Officer.
g) **Notifications file:** notifications that clearly lack credibility are immediately destroyed. When an internal investigation process occurs, they are filed and remain confidential until the respective processes are concluded. When the investigations do not lead to further proceedings, whether disciplinary or legal, the notifications are destroyed within 3 months of the date on which they were sent.

III Information

III.1 Equity structure and BES shares

The equity structure including those shares that are not admitted to trading, the different category of shares, rights and duties of these shares and the equity percentage that each category represents

BES has share capital of EUR 3,499,999,998.00, represented by 1,166,666,666 shares with nominal value of EUR 3.00 each. BES shares are listed on the NYSE Euronext Lisbon.

Banco Espírito Santo has:

a) no capital subscribed and not paid up or non-issued authorised capital;
b) no convertible bonds, warrants and/or shares conferring special rights or privileges;
c) no forms of exponentially increasing the influence of shareholders, or figures such as golden shares or priority shares;
d) no shareholder agreements on the exercise of voting rights, as far as BES is aware;
e) no shares carrying multiple voting rights;
f) no limits on the exercise of voting rights;
g) no statutory restriction on the acquisition or transferability of shares;
h) any increase in the share capital must be previously authorised by deliberation of the General Meeting of Shareholders.

BES Group also has 600,000 non-voting preference shares issued by the subsidiary BES Finance, Ltd. (a wholly owned subsidiary of BES) with nominal value of EUR 1,000 each. This issue is fully guaranteed by BES. These preference shares are listed on the Luxembourg Stock Exchange.

III.2 Qualified holdings

Qualifying holdings in the issuer's equity calculated as per article 20 of the Securities Code

Qualified Stakes	Dec 2009	
	N. Shares	**% Voting rights**
BESPAR - SOCIEDADE GESTORA DE PARTICIPAÇÕES SOCIAIS, S.A		
- directly	466,666,666	40.00%
- through members of its Board of Directors and Supervisory Bodies	2,166,960	0.19%
Total attributable	**468,833,626**	**40.19%**
CRÉDIT AGRICOLE, S.A (France)		
- directly	126,076,650	10.81%
Total attributable	**126,076,650**	**10.81%**
BRADPORT, SGPS, S.A (Portuguese company fully owned by Banco Bradesco, SA)		
- directly	70,583,333	6.05%
Total attributable	**70,583,333**	**6.05%**
PORTUGAL TELECOM, SGPS, S.A		
- through pension funds of PT Group companies, managed by PREVISÃO - Sociedade Gestora de Fundos de Pensões, S.A	30,585,108	2.62%
- through members of its Board of Directors and Supervisory Bodies	150,763	0.01%
Total attributable	**30,735,871**	**2.63%**
ESPIRITO SANTO FINANCIAL GROUP, S.A (Luxembourg)		
- directly	19,228,896	1.65%
- through BESPAR, SGPS, S.A (controlled by Espirito Santo Financial (Portugal), SGPS, S.A, in turn fylly owned by Espirito Santo Financial Group S.A)	468,833,626	40.19%
- through members of its Board of Directors and Supervisory Bodies	31,470	0.00%
- through companies controlled directly and indirectly and/or members of its Board of Directors and Supervisory Bodies	10,650,185	0.91%
Total attributable	**498,744,177**	**42.75%**
ESPIRITO SANTO INTERNATIONAL, S.A (Luxembourg)		
- through ESPIRITO SANTO FINANCIAL GROUP, S.A	498,744,177	42.75%
- through companies controlled directly and indirectly and/or members of its Board of Directors and Supervisory Bodies	66,466	0.01%
Total attributable	**498,810,643**	**42.76%**

III.3 Shareholders with special rights

Identification of the shareholders that detain special rights and a description of those rights

No shareholders detain special rights.

III.4 Transferability of shares

Possible restrictions on share-transfer, i.e. consent clauses for their disposal or restrictions on share-ownership

There are no restrictions to the transfer of shares.

III.5 Shareholder agreements

Shareholder agreements of which the company may be aware of and that may restrict the transfer of securities or voting rights.

The Company is unaware of any shareholder agreements such as may restrict the transfer of securities or voting rights.

III.6 Amendment of BES's bylaws

Rules applicable to the amendment of the bylaws

Any amendment of BES's bylaws, namely concerning resolutions on changes to the share capital, must be submitted to the General Meeting, for approval. Resolutions concerning changes in the bylaws must be approved by two thirds of the votes expressed, for which purpose at least fifty percent of the votes must be present, whether the General Meeting is held on first or second call. When held on first call, the General Meeting can only pass resolutions if Shareholders holding at least fifty per cent of the share capital are present or represented. When held on second call, the General Meeting may pass resolutions regardless of the number of Shareholders present or the percentage of the share capital represented by them.

III.7 Control mechanisms

Control mechanisms for a possible employee-shareholder system inasmuch as the voting rights are not directly exercised by them

The PPRV 2008-2010 replaced the previous incentive system – the Share Based Incentive System (SIBA) – which had been approved in 2000 and was terminated in 2008, with only some of its issues remaining outstanding up to maturity. In the former SIBA system, which implied employee participation in the Company's share capital, the voting rights were exercised directly by the Employees, therefore being subject to no control mechanisms (see Points II.18 and II.20).

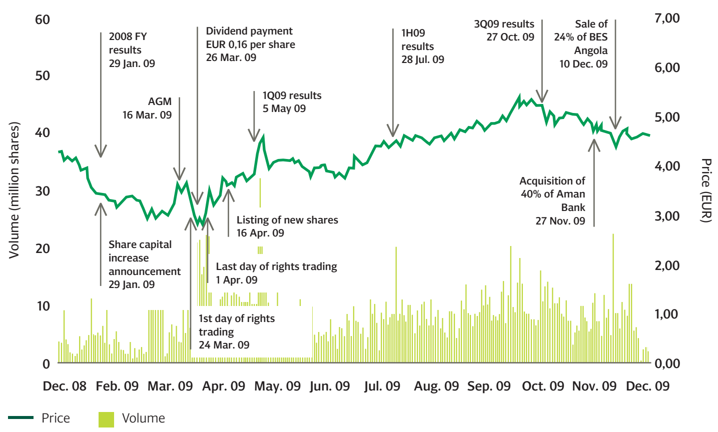
III.8 Evolution of BES's share price

Description concerning the evolution of the issuer's share price and taking the following into account: a) The issuance of shares or other securities that entitle to subscription or acquisition of shares; b) The announcement of results; c) The dividend payment for each share category including the net value per share.

The financial crisis initiated in mid-2007 continued to have a negative impact on the performance of the banking sector during the first quarter of 2009. At the beginning of March the Dow Jones 600 Banks index, which tracks the performance of the 55 largest European banks, came as low as losing 40% since the start of the year. However, by the beginning of the second quarter this trend had already been reversed: the banking sector strongly rebounded during the rest of the year, and at year-end the referred index was gaining 46.9%. Likewise, in Portugal, following a period of negative performance during the first quarter, the PSI-20 index went back to positive ground, and at year end had risen by 33.5%.

The BES shares had a positive performance in 2009, trading at EUR 4.57 in the last stock exchange session of the year, which translates a valorisation of 8.3%. Between January and April the price of the BES shares was penalised by the declining prices of the financial sector shares, while also being under pressure since the announcement of the capital increase until its conclusion. These factors explain the increased volatility of the BES shares, whose price fluctuated between a minimum of EUR 2.77 in March and a maximum of EUR 5.30 in October (closing prices).

BES share price performance in 2009



Source: Bloomberg

BES Share Capital Increase

On March 16th 2009 the General Meeting approved a proposal submitted by the Board of Directors to increase the share capital from EUR 2,500,000,000 to EUR 3,499,999,998 euros, an operation to be carried out in three stages:

(i) Reduction of the nominal value of each share EUR 5 to EUR 1:
BES reduced the Bank's share capital from EUR 2,500,000,000 to EUR 500,000,000, through the reduction of the nominal value of each of its 500,000,000 shares from EUR 5 to EUR 1, and immediate constitution of a corresponding special reserve in the amount of EUR 2,000,000,000, with the purpose of enabling a capital increase through new cash entries. This operation, which had no direct impact on the Bank's shareholders' equity, was intended to facilitate the execution of the capital increase, in light of market conditions at the time. The share capital was reduced from EUR 2,500 million to EUR 500 million, a special reserve in the amount of EUR 2,000 was created, and this reserve was reintegrated into the share capital upon conclusion of the share capital increase process.

(ii) Share capital increase through cash entries:
Issuance of new shares with the nominal value of EUR 1 each, through public subscription and granting pre-emptive subscription rights to the existing shareholders (666,666,666 new shares with nominal value of EUR 1 each). The share capital was increased from EUR 500,000,000 (the amount resulting from the share capital reduction referred in point (i)) to EUR 1,166,666,666, through new cash entries, by issuing 666,666,666 new ordinary shares with the nominal value of EUR 1 Euro, at the price of EUR 1.80 per share, through public subscription and pursuant to shareholders' pre-emptive subscription rights. Hence shareholders were entitled to subscribe 4 new shares for each

share held, at the price of EUR 1.80 (ratio of 1.33). Total proceeds from the capital increase were EUR 1.2 billion, of which EUR 666,666,666.00 as share capital and EUR 533,333,332.80 as the share premium.

(iii) Share capital increase by incorporation of reserves, through increase of the nominal value of each share:

Following the share capital increase by incorporation of reserves, the nominal value of the totality of the BES shares, including the shares issued in the capital increase through cash entries, rose from EUR 1 to EUR 3 per share.

BES's share capital following the share capital increase in three stages is now EUR 3,499,999,998, represented by 1,166,666,666 shares with the nominal value of EUR 3.00 each. Between the date of listing of the new shares resulting from the capital increase (April 16th, 2009) and the end of 2009, the price of the BES shares increased by 27.3%.

Timetable of the capital increase:

Event	Date
Annual General Meeting	16 March 2009
Dividend payment announcement	16 March 2009
Approval of the share capital increase prospectus by the CMVM	17 March 2009
Announcement of terms of the rights offering	17 March 2009
Ex-rights date	19 March 2009
Ex-dividends date	23 March 2009
Dividend payment date	26 March 2009
Rights trading period on the stock exchange	24 March – 1 April 2009
Subscription rights exercise period	24 March – 7 April 2009
Share capital increase results calculations	9 April 2009
Financial settlement of the exercised rights	14 April 2009
Financial settlement of the oversubscription rights	15 April 2009
Registration of capital decrease and increase with the commercial registry	15 April 2009
Listing of new shares on the stock exchange	16 April 2009

Preference shares

BES Group's non voting preference shares, issued by BES Finance, Ltd. (a wholly owned subsidiary of BES) pay an annual dividend of 5.58% before the first call date (July 2nd, 2014). A total of 600,000 preference shares were issued, at the nominal value of EUR 1,000 each. A preferred dividend of EUR 33.48 million was paid in 2009, corresponding to EUR 55.8 per each preference share. After the first call date, the preference shares pay a dividend corresponding to the 3-month Euribor + 2.65% p.a., payable on January 2nd, April 2nd, July 2nd and October 2nd of each year. The preference shares mature on July 2nd, 2014, and may be redeemed on any preferred dividend payment date falling thereafter, subject to prior consent of BES and the Bank of Portugal.

III.9 Dividend distribution policy

Description of the dividend distribution policy adopted by the company, including the dividend value per share distributed during the last three periods

The Bank's objective is to pay dividends to its shareholders to the amount of at least 50% of its individual net income. However, this objective depends on financial conditions and results, as well as other factors deemed relevant by the Board of Directors. Considering that in 2009 the Board of Directors submitted to the General Meeting a proposal to increase the Bank's share capital, the proposal for the distribution of the 2008 net income implied a payout ratio of 19.9% on a consolidated basis and 37.8% on an individual basis.

As described in the 2009 proposed earnings distribution, BES's Board of Directors will submit to the General Meeting a proposal to pay a gross dividend per share of EUR 0.14, which corresponds to a consolidated pay--out ratio of 35.4% based on recurrent income (i.e., adjusted for extraordinary items), or 31.3% if considering total income (i.e., not adjusted for extraordinary items). In view of the recovery of the Bank's results in 2009, and while bearing in mind that the uncertainty surrounding market and macroeconomic conditions call for the maintenance of high solvency levels, the total amount of dividends proposed by the Board of Directors for distribution (EUR 163 million) represents an increase of 104% when compared to the amount distributed in 2008 (EUR 80 million).

The dividend yield (gross dividend per share/share price) increased from 2.4% in 2008 to 3.1% in 2009 (at closing prices in each year).

	Gross dividend (EUR)	Shares outstanding	Gross dividend per share (EUR)	Payout Ratio	
				Individual	Consolidated
2005	120 000 000	300 000 000	0.400	63.1%	42.8%
2006	200 000 000	500 000 000	0.400	77.7%	47.5%
2007	240 000 000	500 000 000	0.480	48.5%	39.5%*
2008	80 000 000	500 000 000	0.160	37.8%	19.9%
2009	163 333 333	1 166 666 666	0.140	44.3%	31.3%*

* Excluding non recurrent items (extraordinary results) the consolidated payout ratio would be 43.0% in 2007 and 35.4% in 2009.

III.10 Share and stock option plans

Description of the main characteristics of the share and stock option plans adopted or valid for the financial year in question, the reason for adopting said scheme and details of the category and number of persons included in the scheme, share-assignment conditions, non-transfer of share clauses, criteria on share-pricing and the exercising option price, the period during which the options may be exercised, the characteristics of the shares to be distributed, the existence of incentives to purchase and/or exercise options, and the responsibilities of the Board of Directors for executing and/or changing the plan.

Indication of (a) the number of shares required for the share allotment and the number of shares required for the exercise of the exercisable options at the start and end of the year in question; (b) the number of allotted, exercisable and extinct shares during the year;(c) the General Meetings' appraisal of the plans adopted or in force during the period in question.

In 2009 there were no schemes in place for the allotment of shares or options to purchase shares, but only the PPRV 2008-2010, described in points II.18 and II.20, which consists in the allocation of a right to receive a variable remuneration tied to the potential increase in the BES share price during the 3-year period ending in 2010.

III.11 Transactions between the company and members of the Board of Directors and Audit Committee, owners of qualified holdings, or companies in a control or group relationship

Description of the main data on business deals and transactions carried out between the company and the members of the Management and Supervisory Board, the owners of qualified holdings or companies in a control or group relationship in an amount that is economically significant for any of the parties involved, except for those business deals or transactions that are cumulatively considered within the bounds of normal market conditions for similar transactions and are part of the company's current business.

All the business deals and transactions carried out by the Company with members of its Board of Directors and Audit Committee, with holders of qualified stakes or with companies under a parent-subsidiary or group relationship with it are cumulatively undertaken under normal market conditions for similar operations and are part of the Bank's day-to-day activity.

III.12 Investor Relations

Reference to an Investor Assistance Unit or a similar service, describing: a) the role of said office; (b) type of information made available; (c) access means to said Office;(d) the company's website;(e) the market liaison officer's credentials.

Investor Relations communicates to the market all the information on results, events or any other facts concerning BES Group that may be of interest to the financial community in general. It also provides direct information to and replies to any queries made by shareholders, investors and analysts. The Investor Relations division is also responsible for coordinating the information provided to the Fitch, Standard & Poors and Moodys international rating agencies. The Representative for Relations with the Portuguese Securities Market Commission (CMVM) is responsible for BES' relationship with the CMVM and for disclosure of information through this supervising authority, by means of announcements or "privileged information" notices.

Investor Relations regularly issues presentations, notices or press releases on quarterly, interim and annual results, as well as on any other facts concerning the life of the Company that may be of interest to the financial community in general, and to the Shareholders and investors in particular. Regular meetings are also arranged with shareholders and potential investors. BES also participates in a number of international conferences organised by investment banks.

The website (www.bes.pt/investidor for information in Portuguese and www.bes.pt/ir for information in English) as well as "ValorBES", a quarterly newsletter for shareholders, are used as favoured tools for disclosing relevant information about BES Group. In addition to information of obligatory disclosure in Portuguese and English, BES also publishes in its website extensive financial information of interest to shareholders and potential investors. The company's corporate governance model and practices, including information about the general meetings, and a calendar of company events, can also be found on BES's website.

In addition to the website, e-mail (accionista@bes.pt or investidor@bes.pt) is also used to answer or clarify questions addressed to BES.

Shareholders, investors and analysts should address their queries or requests for information to:

Investor Relations
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1250-142 Lisboa - Portugal
Tel. / Fax: (351) 21 350 88 38 / (351) 21 350 12 89
E-mail: juandre@bes.pt

III.13 Auditor's remuneration

Indication of the annual compensation paid to the auditor and to other individuals or groups that belong to the same network supported by the company and/or by any group that bears with it a control or group relationship and the percentage of the total amount paid for the following services: a) statutory account review services; b) other reliability assurance services; c) tax consulting services; d) other non-statutory auditing services. A description of the auditor's independency safeguarding measures is required, should the auditor provide any of the services described in sub-paragraphs c) and d).

Remuneration paid by BES Group in 2009 to the External Auditors:

	2009	%	2008	%
Audit and legal review of the accounts service	2,047,274	26%	2,069,804	36%
Other services of audit/reliability guarantee related to the Official Account Audit function	1,089,551	14%	914,700	16%
1.Total Audit services	**3,136,825**	**40%**	**2,984,504**	**52%**
Tax consulting services	514,470	7%	415,771	7%
Other non-audit related services	4,162,808	53%	2,343,845	41%
2.Total other services	**4,677,278**	**60%**	**2,759,615**	**48%**
	7,814,103	100%	5,744,119	100%

Fiscal consultancy services and other non-audit services provided to BES Group either by the Auditors or by other entities belonging to the same professional network, assume that both BES Group and KPMG have the adequate means to safeguard the professional independence of the External Auditors. These means may be summarised as follows:

a. At BES Group level

Within the scope of compliance with the rules on independence established for external auditors, BES's Audit Committee defined the criteria which should be used in the approval of non-audit services to be provided by KPMG. In this context, all proposals concerning the provision of fiscal consultancy or other non-audit services must obligatorily be subject to the analysis and prior approval of the Audit Committee with a view to safeguarding the professional independence of the External Auditors.

For practical reasons, the Audit Committee has defined a set of non-audit services which, on account of their nature, do not require prior analysis and approval providing that the remuneration paid for such services falls below a specified pre-established amount. However, the Audit Committee has also determined not only that it must obligatorily be informed of these approved proposals, for ratification, on a quarterly basis, but also that all the proposals submitted by the External Auditors concerning the provision of non-audit services whose remuneration exceeds the specified limit and/or which by their very nature are not liable to automatic approval be subject to prior analysis and approval by that Committee.

b. At the level of BES Group's Statutory Auditor/External Auditor

KPMG, BES Group's Statutory Auditor/External Auditor, has prepared specific internal instructions concerning the procedures that must obligatorily be followed by all the entities included in their professional network whenever they propose to provide services to any entity of the BES Group.

In addition, the international network to which KPMG belongs has implemented an intranet service (called "Sentinel") under which no service can be provided by any entity of that network to any client with listed securities without the previous authorisation of the Global Lead Partner responsible for that client. This procedure obliges any partner of KPMG, or of any other entity belonging to the same professional network, which proposes to provide a service to an audit client, to previously request the respective Global Lead Partner's authorisation to provide that service. In that request for authorisation, the KPMG's partner responsible for submitting the proposal to the client is obliged to justify the reasons why it considers that not only the service to be provided to the audit client does not jeopardise the independence of KPMG in relation to that client, but also that it complies with applicable rules on professional risk management.

Furthermore, before authorising any proposal to provide services to be submitted to the BES Group, the Global Lead Partner of KPMG in charge of the professional relations between them and BES Group is responsible for verifying if the services to be proposed fall within the scope of the pre-approval requirement for non-audit services, and, should that be the case, for taking the necessary steps with the BES Group entity to which the proposal is addressed in order to obtain assurance that applicable independence rules are strictly complied with. In case of doubt, the Global Lead Partner should also consult with its Risk Management Partner.

Finally, it should also be noted that all these procedures are subject to compliance tests within the scope of the internal Quality Control process carried out every year by KPMG at international level.

For the purposes of this text, the 'network' concept derives from the EC Recommendation No. C (2002) 1873 of 16 May.

Annex I: Remuneration Policy of BES's Corporate Bodies to be submitted by the Remuneration Committee to the General Meeting of Shareholders on April 6th, 2010

Remuneration Policy of the Corporate Bodies of Banco Espírito Santo, S.A

.“BES”

I. Overview

BES's Remuneration Committee has since 2006 submitted to the General Meeting the Remuneration Policy of BES's Corporate Bodies, setting out the structure of pay of the members of the Board of the General Meeting, Audit Committee and Board of Directors.

Over the last three years this remuneration policy has been based on the recommendations approved by the national supervision authorities, while primarily following BES's long standing practice of attributing a fixed remuneration to all the members of the corporate bodies. Only the remuneration of the members of the Executive Committee of the Board of Directors always included a variable component in addition to the fixed component, consisting in the attribution of a percentage of the year's net income within the statutory limits approved by the General Meeting.

At the same time, and with regard to the members of the Executive Committee, medium and long term incentive programmes were implemented over time, namely the Share Based Incentive System (SIBA) in 2000, and more recently, the Variable Remuneration Plan (PPRV), in 2008.

BES's Remuneration Committee believes that the remuneration policy followed until now has been correct and adequate to the Bank's strategic objectives.

In fact, the remuneration of the corporate bodies has always been approved by the Remuneration Committee, which was regularly composed of persons independent from the members of the Board of Directors and whose decisions followed the applicable legislation, as well as practices whose effectiveness was demonstrated over time by the success of the results presented by BES to its shareholders.

The alleged excesses committed in other institutions did not occur in BES, where the variable component of the remuneration never surpassed 55% of the statutorily authorised limit.

Moreover, BES has since its privatisation benefited from a strong shareholder structure, actively engaged in management, as well as from remarkable stability in the composition of its corporate bodies. These factors of permanence underline an adequate control of risks and the inexistence of short-term policies entailing high levels of risk for the institution.

II. New regulations on the remuneration of the corporate bodies

2009 and the first months of 2001 have been particularly rich in the creation of new rules and recommendations concerning the remuneration of corporate bodies.

At European Union level, we witnessed the successive approval of the Commission Recommendation of 30 April 2009, complementing Recommendations 2004/913/EC and 2005/162/EC as regards the regime for the remuneration of directors of listed companies, and the Commission Recommendation of the same date on the remuneration policies in the financial services sector.

The national legislator and regulator forthwith transposed these European recommendations into Portuguese law, making some of them of obligatory application.

Law No. 28/2009 of 19 June was therefore approved, imposing a new obligatory framework for the remuneration policy of the members of the administrative and supervisory boards of public interest companies – in which BES is included – and establishing the mandatory disclosure of the individual remuneration of the members of said bodies.

Subsequently, early in January 2010 the Portuguese Securities Market Commission (CMVM) approved a new Corporate Governance Code, as well as Regulation 1/2010, while the Bank of Portugal issued Notice 1/2010, and circular letter 2/2010. All these documents complement the referred Law 28/2009, setting out new items that must be included in the remuneration policy of credit institutions and listed companies, thus forcing BES to conform to both the first and the latter, by virtue of its double nature of a credit institution and a listed company.

III. Main aspects of the new regulations

The new regulations are based on an underlying assumption that cannot be equally applied to all financial institutions, and in particular should not be applied to BES: the assumption that inadequate remuneration practices will have caused financial institutions to take on excessive risks, leading to the significant losses suffered by these institutions during the financial crisis initiated in 2007.

In order to prevent such “inadequacies”, the new regulations propose or impose:

a) disclosure of the individual remuneration of the members of the corporate bodies;
b) establishment of mechanisms enabling the members of the corporate bodies' interests to be in conformity with the company's long-term interests, ensuring that remuneration is based on performance and discouraging excessive risk-taking;
c) setting maximum limits on the fixed and variable components of remuneration, making sure that they are appropriately balanced, and that the fixed component is sufficiently high to allow for a fully flexible policy on variable remuneration components;
d) deferred payment of part of the variable remuneration;
e) payment of a substantial part of the variable remuneration through financial instruments.

IV. Remuneration practices in Europe and benchmarking of the remuneration of BES's executive directors

The Remuneration Committee has recently asked Mercer Ltd, an independent consultancy firm, to prepare a survey on current executive compensation practices and respective remuneration structures, making a comparison between the remuneration of BES's executive directors and the remunerations paid by a group of financial institutions of similar size and stock market capitalisation, taken as a benchmark by that consultancy firm.

The main conclusions of this survey point to a trend among financial institutions worldwide towards adopting the aforementioned regulations:

a) at European level, a balance between the fixed and variable components of executive directors' remuneration is being gradually implemented;
b) with regard to the variable component, mechanisms are being set up to defer a substantial portion of that remuneration;

c) part of the variable remuneration is being paid through financial instruments;
d) the majority of European banks has approved variable remuneration plans consisting of one block linked to short-term performance and another linked to medium-term performance.

With regard to the benchmarking study, Mercer Ltd confirmed that, in quantitative terms, the remuneration of BES's executive directors is similar to that of their peers in comparable institutions: however, the study also concluded that BES's variable remuneration structure is at present not fully adjusted to the new regulations.

V. Need to reform the remuneration policy of BES's corporate bodies, with regard to the executive directors

Based on (i) the annual assessment made of BES's remuneration structure, (ii) the recently issued regulations, and (ii) the aforementioned survey commissioned by BES from Mercer Ltd, BES's Remuneration Committee concluded on the need to reform the remuneration structure applicable to the members of the Executive Committee, without however such implying a significant increase in the costs incurred by BES through the remunerations paid to the executive directors, when considered globally.

In fact, and in first place, the variable component of the remuneration of BES's executive directors is at present clearly higher than the fixed component, which historically has been the consequence of the good results posted by BES year after year.

Secondly, there is no deferral of the variable component of the remuneration.

Finally, and except for the PPRV (which was approved by the 2009 Annual Meeting of Shareholders and terminates in 2010), there is at present no medium-term incentives scheme in place for executive directors, namely a stock based or stock option plan, such as will incite them to align their interests to those of the bank and make them share in the market risk of BES's shares.

The Remuneration Committee therefore decided to adapt the remuneration policy of BES's executive directors to the new regulatory conditions under the terms described in the next paragraph, whose key points are summarised below:

a) the amount of the total variable remuneration must be close to the amount of the remuneration's fixed component, setting maximum limits for both forms of remuneration; this implies in 2010 an increase in the fixed component and corresponding decrease in the variable component;
b) the actual amount of the variable pay shall always depend on the Remuneration Committee's annual assessment of the performance of the executive directors;
c) a significant portion of the variable component shall be deferred over a period of no less than three years;
d) a significant portion of the variable component shall be linked to and dependent upon BES's performance over the medium term, and consist in the allocation of options on BES's shares;
e) the new remuneration policy shall not imply an overall significant increase in the costs incurred by BES with its executive directors;
f) no change shall be made to the remuneration structure of the members of the Board of the General Meeting, members of the Audit Committee and non executive members of the Board of Directors.

VI. The new Remuneration Policy of BES's Corporate Bodies

1. Approval process of the remuneration policy

a) Approval

The Remuneration Policy of BES's Corporate Bodies was approved by the Remuneration Committee on February 25th, 2010.

b) Mandate of the Remuneration Committee

Under the terms of Article 24 of the Company's bylaws, it is up to the Remuneration Committee to establish the remuneration of BES's directors.
The Remuneration Committee is currently composed of three members, elected by the General Meeting of March 31st, 2008 for a four-year mandate ending in 2011.

c) Composition of the Remuneration Committee

Rita Maria Lagos do Amaral Cabral

A practicing lawyer, Rita Maria Lagos do Amaral Cabral was a founder and is the Director of Sociedade Amaral Cabral & Associados, a law firm; she is invited assistant professor at the Law School of the Portuguese Catholic University, member of the National Ethics Council for the Life Sciences and a non-executive director of Cimigest, SGPS, S.A. and Semapa – Sociedade de Investimento e Gestão, SGPS, S.A.

Daniel Proença de Carvalho

A practising lawyer, Daniel Proença de Carvalho was Chairman of the Strategic Board of Hospital Amadora-Sintra Sociedade Gestora, S.A from 2007 to 2008, and is currently Chairman of the Board of Directors of ZON Multimédia, Chairman of the Advisory Board of Explorer Investments - Sociedade de Capital de Risco, a venture capital firm, member of the Board of Directors or SINDCOM - Sociedade de Investimentos na Indústria e Comércio and Chairman of the Board of Curators of the D. Anna de Sommer Champalimaud e Dr. Carlos Montez Champalimaud Foundation since 2005.

Jacques dos Santos

Senior Partner with MAZARS AUDITORES PORTUGAL since 1991, Jacques dos Santos was Chairman of the Fiscal Board of Banco Espírito Santo from 1992 to 2006 and is Chairman of the Fiscal Board of BESPAR since 1992. He is also Chairman of the Fiscal Boards of Fromageries BEL (since 1995) and Solubema – Sociedade luso-belga de Mármores (since1993). He is a member of the Fiscal Board of ESAF – SGPS SA.

None of the members of BES's Remuneration Committee is a member of the Board of Directors or has any family connection with any of its members.

A representative of the Remuneration Committee is present in every General Shareholders' meeting.

d) External Consultants

The external consultant chosen to assist the Remuneration Committee in reforming the remuneration policy of BES's Corporate Bodies was Mercer Ltd.

The referred consultancy firm provides other services to BES in the area of human resources.

e) Groups of companies taken as comparison elements

The elements used for comparison were the financial institutions of equivalent size to BES operating in the Portuguese market and a group of financial institutions of similar size and stock market capitalisation to BES, taken from a survey conducted by Mercer Ltd in 2009 entitled "Mercer's Pan European Financial Services Survey".

2. Remuneration of the members of the Board of the General Meeting

The members of the Board of the General Meeting receive a fixed monthly remuneration paid twelve times per year.

3. Members of the Audit Committee

The members of the Audit Committee receive a fixed monthly remuneration paid fourteen times a year.

4. Chairman of the Board of Directors

The Chairman of the Board of Directors receives a fixed monthly remuneration paid twelve times per year.

5. Non executive members of the Board of Directors: non independent directors

The non executive Directors who are not part of the Audit Committee and are not qualified as independent receive a fixed amount attendance fee for each Board meeting attendance.

Non executive Directors who hold executive positions in the management body of companies in a control and/or group relationship with BES, or who carry out specific functions assigned to them by the Board of Directors, may be remunerated by these companies or by BES, in accordance with the nature of these functions.

6. Non executive members of the Board of Directors: independent directors

The non executive members of the Board of Directors qualified as independent directors in accordance to legal criteria receive a fixed monthly remuneration, paid twelve times per year.

7. Members of the Executive Committee

a) Equal remuneration

All the members of the Executive Committee receive the same remuneration, except for the Chairman. However the variable component of the remuneration may differ among the members of the Executive Committee.

b) Composition of the remuneration

The remuneration consists of a fixed component and a variable component.

The remuneration of the members of the Executive Committee is set by the Remuneration Committee up to the end of April of every year, based on the assessment of the performance in the previous year.

c) Remuneration Limits

The fixed component shall be subject to the limits established by the Remuneration Committee, and represent approximately 45% of the Total Annual Remuneration.

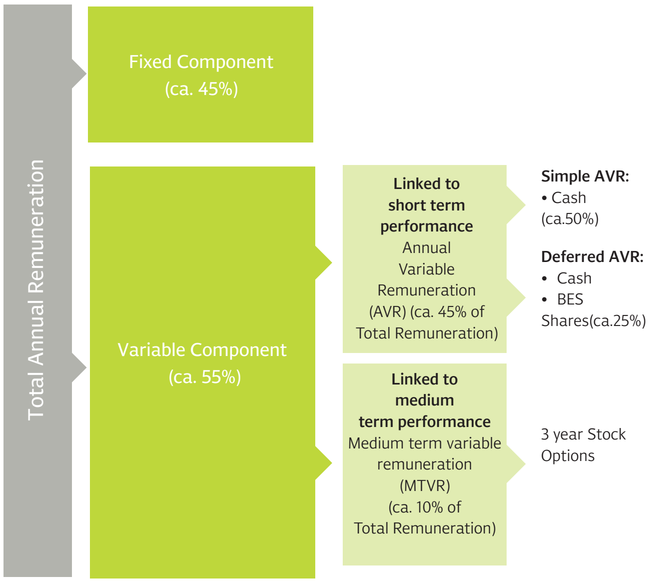
The fixed component consists of the salary of the members of the Executive Committee, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

The variable component established for 2010 is subject to an upper limit corresponding to 1.4% of the consolidated earnings of BES Group, notwithstanding a general limit corresponding to 2% of BES Group's consolidated net income that will be set as from this year in accordance with Article 24 of the company's bylaws.

d) Balanced remuneration

The fixed component shall represent approximately 45% of the total remuneration, the remaining 55% being attributed as a variable component.

The exact amount of the variable component will change in each year in accordance with the level of achievement of the main annual objectives set in the annual budget, as approved by the Board of Directors.



e) Criteria for defining the variable component and respective time of payment

The variable component is divided into two sub-components.

A) *Short term performance (Annual Variable Remuneration)*

The Annual Variable Remuneration («AVR») is linked to short term performance and will correspond to approximately 45% of the Total Annual Remuneration.

The AVR will be calculated at the beginning of each year by the Remuneration Committee, in accordance with the level of achievement of the main annual objectives set in the annual budget for the previous year, as approved by the Board of Directors, concerning: Net Income for the year, Cost to Income (ratio of operating costs to total banking income), and Return on Equity (ratio of net income to equity).

The amount of the AVR will be proportional to the level of achievement of the objectives set in the budget for those three items.

In case the Net Income for the year is higher than budgeted, the amount of the AVR will correspond to 1.1% of the Net Income for the year (proportion of the AVR at the upper limit described above for the total variable remuneration, which in 2010 corresponds to 1.4% of the year's net income).

The AVR is divided into a simple portion («Simple AVR»), which is paid in cash after the accounts for the year in question have been approved, on the dividend payment date (as has happened until now), and another portion that is deferred over a period of up to three years (the Deferred Annual Variable Remuneration («Deferred AVR»).

The Deferred AVR is also divided into two equal parts (one in cash and another in kind, the latter consisting of BES shares), which are paid to the members of the Executive Committee in annual equal instalments over the three years following that in which it was determined.

B) ***Medium Term Performance (Medium Term Variable Remuneration)***

The Medium Term Variable Remuneration («MTVR») is linked to Medium Term Performance and will correspond to approximately 10% of the Total Annual Remuneration.

The MTVR will be determined by the Remuneration Committee at the beginning of each year based on the assessment of the previous year's performance. It will be paid through the attribution of stock options which can only be exercised three years after their date of attribution, thus implying the accrual of their cost over those three years until they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over three years, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the three-year period will be 10% higher than the market price at the beginning of this period.

Applying this assumption of evolution of the share's market price to the reference price used to structure the Stock Options will permit to establish the exercise value of those options and consequently to determine the number of stock options to be attributed each year to each director.

C) ***Regulation on the attribution of Shares and Options***

The rules on attribution of shares and stock options to the members of the Executive Committee will be set out in a specific Regulation to be submitted to the General Meeting, for approval.

f) Mechanisms of Limitation of the Variable Remuneration

The Deferred Annual Variable Remuneration («RVAD») is subject to two general limitations: on the one hand, its payment is deferred over a period of three years; on the other hand, in the case of a structural deterioration of BES's performance, any instalments still owing will no longer be due. It is the responsibility of the Remuneration Committee to ascertain and determine that there is a structural deterioration, which among others shall consist in the reduction of return on equity to below 5%.

By definition, the Medium Term Variable Remuneration («MTVR») is limited by the performance of the BES shares. This remuneration will have no value unless the share price increases by at least 10% in the 3-year period.

g) Criteria for performance assessment

The assessment of the executive directors will thus be made against four indicators:

- Cost to Income (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues against operating costs;
- Net Income for the year – this indicator translates the contribution to shareholders, already deducted of elements not included in the cost to income, such as the cost of risk, taxes and minority interests;
- Return on Equity (ratio of net income to equity) – this indicator provides a measure of the return generated with the funds invested by the shareholders;
- Stock market capitalisation – an unequivocal indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective.

h) Criteria concerning the retention by the executive directors of shares attributed to them

The members of the Executive Committee are attributed a variable remuneration payable in kind, through allocation of a certain number of BES shares. These shares, corresponding to the remuneration paid in kind, are divided into three equal blocks and delivered to the members of the Executive Committee in three annual instalments.

The payment in kind is thus partially deferred over three years, with only one third of the number of shares decided by the Remuneration Committee being delivered to the members of the Executive Committee in each year.

The members of the Executive Committee are attributed stock options, which can only be exercised at the end of a three-year period.

There is no rule in place concerning the retention or maintenance of the shares acquired by the members of the Executive Committee, which can be freely traded upon their delivery or the exercise of the options.

i) Criteria governing agreements on the shares attributed

No agreements concerning the shares attributed to the members of the Executive Committee, including hedging contracts or other risk transfer contracts, shall be permitted.

The Remuneration Committee requests the Board of Directors to include this rule in its Internal Regulations.

j) Main parameters and rationale for any annual bonus scheme and any other non-cash benefits

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

k) Remuneration paid in the form of a share in the profits and/or the payment of bonuses and the rationale behind the act of awarding such bonuses and/or share in profits

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

l) Compensation paid or owed to former executive directors in relation to early contract termination

No compensation has been paid or is owed to former members of the Executive Committee in relation to early contract terminations.

m) Contractual limitations on compensation due for directors' dismissal without cause and relationship with the variable component of the remuneration

There are no agreements in place that establish amounts to be paid to members of the Executive Committee in case of dismissal without due cause.

n) Main characteristics of the supplementary pension or early retirement schemes set up for directors, with indication of whether such schemes were submitted to the general meeting for assessment

The members of the Board of Directors are entitled to receive retirement pensions or complementary pension benefits if they were members of the Executive Committee.

The main points of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability may be summed up as follows:

a) The right to receive a retirement pension or complementary pension benefits falls due on reaching sixty five years of age, or twenty five years of professional activity, or in the event of disability, when disability occurs.
b) The right to receive retirement pension or complementary pension benefits may be brought forward to the age of fifty five, providing the board member has served on BES' Board of Directors for a minimum period of nine consecutive or non consecutive years. Positions held in the senior management or Board of Directors of the former "Banco Espírito Santo e Comercial de Lisboa, S.A." count for purposes of calculating seniority in the post."
c) Complementary pension benefits may exist as a way of topping up other retirement schemes that may be granted under any other social security system.

In any case, retirement pensions or complementary pension benefits shall never exceed the pensionable salary of the board member in question, although they may be of a lower amount. The pensionable salary corresponds to one hundred per cent of the last annual gross remuneration paid to the board member in question.

The regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability was approved by the General Meeting of Shareholders held on June 22nd, 2000.

o) An estimate of the non-financial benefits considered as remuneration which do not fall under the categories listed above.

There are no non-financial benefits attributed to the members of the Board of Directors.

8. Rules applicable to all the members of the Board of Directors

a) Payments for dismissal or voluntary termination of directors

There are no payments foreseen for the dismissal of directors, and any voluntary termination requires the previous approval of the Remuneration Committee with regard to the amounts in question.

b) Amounts paid in 2009 to the members of the corporate bodies, including amounts paid on any basis by other companies in a group relationship or exercising control over the company

EUR thousand

	BES			Total BES	Other BES Group firms		Total other	Total remuneration		Total
	Fixed		Variable		Fixed	Variable		Fixed	Variable	
	Salary	Subsidies and other								
Ricardo Espírito Santo Salgado	435	12	603	1,051	3		3	450	603	1,053
José Manuel Espírito Santo	348	12	504	865	3		3	363	504	867
António Souto	348	7	504	860				356	504	860
Jorge Martins	348	6	504	858				354	504	858
José Maria Espírito Santo Ricciardi				0	226	634	860	226	634	860
Jean-Luc Guinoiseau	348	2	504	854				350	504	854
Rui Silveira	348	6	504	858				354	504	858
Joaquim Goes	348	5	504	858				354	504	858
Pedro Homem	348	3	504	855	3		3	353	504	857
Amílcar Morais Pires	348	4	504	857				353	504	857
João Freixa	348	4	504	857	2		2	355	504	859
Total for the Executive Committee	**3,571**	**62**	**5,139**	**8,772**	**236**	**634**	**870**	**3,868**	**5,773**	**9,641**
José Pena	239			239				239		239
Luis Daun e Lorena	239			239				239		239
João Faria Rodrigues	239			239				239		239
Total for the Audit Committee	**717**	**0**	**0**	**717**	**0**	**0**	**0**	**717**		**717**
Alberto Oliveira Pinto	180			180				180		180
Jean Frederic de Leusse		11		11				11		11
Aníbal de Oliveira		25		25				25		25
Manuel Fernando Espírito Santo		25		25				25		25
Bernard Delas		25		25				25		25
Michel Goutorbe		29		29				29		29
Nuno Godinho de Matos		29		29				29		29
Ricardo Abecassis Espírito Santo		15		15	265	272	537	280	272	552
Bernard Octave Mary		25		25				25		25
Pedro Amaral	133	22		155	135	338	473	290	338	628
José Epifânio da Franca	40			40				40		40
Isabel Sousa Coutinho	40			40				40		40
Luiz Carlos Cappi		4		4				4		4
Mário Mosqueira do Amaral			110	110				0	110	110
José Ferreira Neto			110	110				0	110	110
Total for the Other Board Members	**393**	**210**	**220**	**823**	**400**	**610**	**1010**	**1003**	**830**	**1,833**
Total for the Board of Directors	**4,681**	**272**	**5,359**	**10,312**	**636**	**1,244**	**1,880**	**5,589**	**6,603**	**12,192**

The variable remuneration paid by BES in 2009 by way of bonuses totalled EUR 5,359,000, as approved by the General Meeting of March 16th, 2009. Such remuneration represents 2.53% of the individual net income in 2008. This amount includes EUR 220,000 relative to the bonuses awarded to board members Mário Mosqueira do Amaral e José Ferreira Neto, who terminated their mandate on March 31st, 2008 but were still executive directors of the Bank until that date.

Lisbon, February 25th, 2010.

Annex II: Remuneration Policy of BES's Senior Officers to be submitted by the Board of Directors to the General Meeting of Shareholders on April 6th, 2010

Remuneration Policy of the Senior Officers of Banco Espírito Santo, S.A.

"BES"

I. Framework

With the objective of providing maximum information to the Shareholders, an annual statement on the remuneration policy of BES's employees has since 2008 been submitted to the General Meeting.

The General Meeting also had the opportunity to assess and approve, in the past, medium and long term incentive programmes, namely the Share Based Incentive System (the "SIBA", approved in 2000), and the Variable Remuneration Plan ("PPRV 2008-2010", approved in 2008).

As far as remunerations are concerned, the General Meeting has focused on the assessment of the document prepared by the Remuneration Committee on the remuneration policy of the members of the corporate bodies, the principal developments of which derive from compliance with the rules and recommendations applicable to BES as an issuer of securities admitted to trading on a regulated market.

This year, as a result of regulatory developments that will be described below, it has been necessary to expand the scope of application of the statements submitted to the General Meeting. Therefore, the present document shall cover the senior officers of BES in a broad sense, which include: (i) Senior Officers in the strict sense (General Managers and Advisors) of all the areas of the Bank; ii) Coordinating Managers of all the areas of the Bank; and iii) Management Officers (Managers, Assistant Managers and Deputy Managers) exercising control functions, i.e., those from the Internal Audit, Global Risk and Compliance areas.

II. New regulations on the remuneration of senior officers of financial institutions

The last few months have seen the approval of several regulatory measures concerning remuneration policies, with a direct impact on BES. A common denominator of all these initiatives is the enlargement of the scope of application of required indications about remunerations, which before only concerned members of the management and supervisory bodies and now covers a wider group of employees.

Particular mention should be made in this regard to Recommendation 2009/384/EC, approved by the European Commission on April 30th, 2009, which invites Member States to adopt a set of principles intended to align pay incentives of the staff of financial institutions with the long-term interests of these institutions. The EC recommendation applies not only to the members of the corporate bodies but also to those categories of staff whose professional activities have a material impact on the risk profile of the financial institutions.

These recommendations aim to induce financial institutions to follow remuneration practices that discourage excessive risk-taking and contribute to align the personal interests of staff members with the long-term interests of the financial institutions. However, the indications given are based on an assumption that cannot be generalised to all financial institutions, and in particular cannot be taken as true with regard to BES: that inadequate remuneration practices induced excessive risk-taking and thus resulted in significant losses of financial institutions.

Although specifically addressed to the financial sector, these Recommendations nevertheless complement Recommendation 2009/913/EC, of December 14th, 2004, which among others, recommends that the remuneration policy should be submitted to shareholders for a vote, and establishes information disclosure duties in this area, "in order to give shareholders an effective chance to express their views (...) on the basis of a comprehensive disclosure".

In Portugal, Law no. 28/2009, of June 19th, has imposed on public interest entities the duty to submit to the general meeting a statement on the remuneration policy ("say on pay") of the members of their management and supervisory bodies. For the purposes of this law, and in so far as that concept applies, among others, to credit institutions and to listed companies, BES clearly qualifies as a public interest entity.

Law no. 28/2009 has also established the duty of public interest companies to publicly disclose every year the aggregate and individual amount of the remuneration received by the members of the management and supervisory bodies.

This legislative discipline was subject to two regulatory developments that expanded its content and scope of application. Both apply to BES by virtue of its double status as a bank and an issuer of securities admitted to trading on a regulated market.

With a bearing on the issuers of securities admitted to trading on a regulated market, the CMVM (Portuguese Securities Market Commission) approved Regulation no. 1/2010 and updated the recommendations contained in its Corporate Governance Code. As far as relevant to the present case, these recommendations expand the scope of the duty of approval of the remuneration policy of the senior officers to include the General Managers, the Advisors, and also for this purpose, the Coordinating Managers.

In the ambit of the credit institutions, the Bank of Portugal issued Notice no. 1/2010 and Circular Letter no. 2/2010/DSB, the scope of which is applicable to BES, in so far as it addresses credit institutions that engage in the activity of receiving deposits or other repayable funds for use on their own account, or in the activity of discretionary management of financial instrument portfolios on behalf of clients.

Through this double initiative, the Bank of Portugal extended the duty to disclose the remuneration policy – imposed by Law no. 28/2009 with regard to the management and supervisory bodies of all public interest companies – to include the remuneration of the employees of institutions who, although not members of their management and supervisory bodies, earn a variable remuneration and carry out activities in the area of the institution's control functions, or others that may have a material impact on the institution's risk profile.

III. Main aspects of the new regulations

The CMVM recommendations set forth in the revised version of the Corporate Governance Code only provide succinct recommendations on the remuneration policy of senior officers, to the effect that it be detailed and take into account long-term performance, compliance with applicable rules and contention in risk-taking.

More demanding in terms of both scope and content, Bank of Portugal Notice no. 1/2010 imposed on public interest entities, in which BES is included, the duty to disclose the following elements concerning the remuneration policy of senior officers as part of their annual account reporting documents:

a) the manner in which the remuneration is structured so as to allow aligning the interests of the employees with the long-term interests of the company, how it is based on performance assessment, and how it discourages excessive risk taking;
b) the decision-making process used for determining the remuneration policy;

c) the relationship between fixed and variable remuneration, and limits on variable remuneration;
d) the criteria for establishing the variable remuneration, as well as the criteria for the deferral of its payment and the minimum period of deferral.

In turn, Circular Letter no. 2/2010/DSB set forth a number of recommendations concerning the content of the remuneration policy to be submitted every year to the shareholders, for approval, namely:

a) the fixed remuneration of senior officers whose remuneration includes a variable component shall represent a sufficiently high proportion of the total remuneration to allow for the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration components;
b) the variable component shall be subject to a maximum limit;
c) a substantial part of the variable component of the remuneration shall be paid in financial instruments, the appreciation of which is dependent on the performance of the institution over the medium and long term;
d) the quantification of the variable component of the remuneration shall also take into account non-financial criteria and be in part dependent on the collective performance of the employee's business unit;
e) the performance-linked variable remuneration shall be granted in accordance with predetermined and measurable performance criteria and consider a multi-year framework;
f) payment of part of the variable remuneration shall be deferred;
g) the amount of the variable remuneration of employees who carry out control duties shall depend on the achievement of objectives linked to the respective functions and not to that of the areas under their control;
h) the remuneration policy shall be independently assessed at least once a year by the institution's control functions, working in coordination.

Although these recommendations do not have a mandatory nature, in line with the "comply or explain" model that also underpins the CMVM papers, BES's Board of Directors must every year send to the Bank of Portugal a statement on the compliance or non compliance of the remuneration policy with these recommendations.

IV. Need to reform the remuneration policy of BES's senior officers; delimitation of scope

BES was not internally affected by the remuneration ills related to the financial crisis, which prompted national legislative interventions on the remunerations paid by financial institutions.

Even so, and with the aim of being aligned to the best market practices, BES seeks to adjust as far as appropriate to the indications contained in Circular Letter no. 2/2010/DSB concerning the content of the policy itself – which, it should be stressed, have the nature of mere recommendations and are addressed to the institutions in a "comply or explain" perspective.

Given the international scope of the activity of BES and the group of which it is part, it is fundamental to adopt the European Commission Recommendation no. 2009/384/EC, whose scope of application covers the employees whose professional activities have a material impact on the risk profile of the financial institutions.

This encompasses not only the senior officers in a broad sense, which include: (i) General Managers, (ii) Advisors, and iii) Coordinating Managers, regardless of the area in which they carry out their activity, but also the Management Officers (Managers, Assistant Managers and Deputy Managers) within the strict circle of control functions - Internal Audit, Compliance and Global Risk.

In fact, it is easy to understand that, besides the members of the corporate bodies, in the specific case of BES these officers correspond to those whose performance has a material impact on the Bank's risk profile.

Based on (i) the annual assessment made of BES's remuneration structure, and (ii) the recently issued regulations, BES's Board of Directors introduced certain changes to the remuneration structure applicable to the senior officers, without however such implying a significant increase in the costs incurred by the Bank through the remunerations paid to these officers, when considered globally. In essence, these are the main pillars of the remuneration structure:

a) promote a balance between the fixed and the variable components of total remuneration, setting maximum limits on both forms of remuneration;
b) the actual amount of the variable remuneration shall always depend on the performance assessment carried out every year by the Board of Directors;
c) part of the variable component of the remuneration of the General Managers, Advisors and Coordinating Directors shall be deferred over a period of no less of three years;
d) part of the variable component of the remuneration shall be linked to and dependent upon BES's medium term performance, and in the case of General Managers, Advisors and Coordinating Directors shall consist in the allocation of options on BES's shares;
e) the new remuneration policy shall not imply an overall significant increase in the costs incurred by BES with its senior officers.

V. The new remuneration policy of BES's senior officers

1) Approval process of the remuneration policy

a) Approval

The process of approval of the remuneration policy of the employees considered herein starts with a proposal submitted by the Board of Directors. The statement on the remuneration policy of the senior officers is submitted to the General Meeting, for approval, pursuant to Law no. 28/2009, of 19 June. Finally, the exact setting of the remuneration is approved by the Board of Directors.

b) Mandate of the Board of Directors

Under the terms of the law and the Company's bylaws, the setting of the remuneration of BES's senior officers is the responsibility of the Board of Directors, within the scope of their management of the human resources and incentives policies, and viewing the achievement of the Bank's strategic objectives.

c) Composition of the Board of Directors

Current composition of the Board of Directors:
Alberto Alves de Oliveira Pinto (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Jean-Frédéric Marie Jacques de Leusse (Vice-Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Feixial de Goes
Pedro José de Sousa Fernandes Homem
Luís António Burnay Pinto de Carvalho Daun e Lorena
Ricardo Abecassis Espírito Santo Silva
José Manuel Ruivo da Pena
Amilcar Carlos Ferreira de Morais Pires
Nuno Maria Monteiro Godinho de Matos

João Eduardo Moura da Silva Freixa
Bernard Octave Mary
Michel Joseph Paul Goutorbe
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca
Luiz Carlos Trabuco Cappi

d) External Consultants

The external consultants recruited to assist the Board of Directors in the drafting of the remuneration policy of BES's senior officers were Mercer (Portugal), Lda and Sérvulo & Associados – Sociedade de Advogados, RL.

Mercer (Portugal), Lda provides other services to BES in the area of human resources.

2. General Managers, Advisors and Coordinating Managers

a) Composition of the Remuneration

The remuneration consists of a fixed component and a variable component.

The Bank's overall remuneration policy is revised every year by the Board of Directors until the end of May. This entails the annual revision of the fixed remuneration in accordance with indicators such as the rate of inflation and the rate of salary increase set by the collective wage agreement (ACTV) for the banking sector, and the setting of a variable component, also before the end of May of each year, based on the assessment of performance in the previous year.

b) Remuneration Limits

The fixed component shall be subject to the limits established by the Board of Directors, and represent on average approximately 74% of the Total Annual Remuneration.

The fixed component consists of the basic salary, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

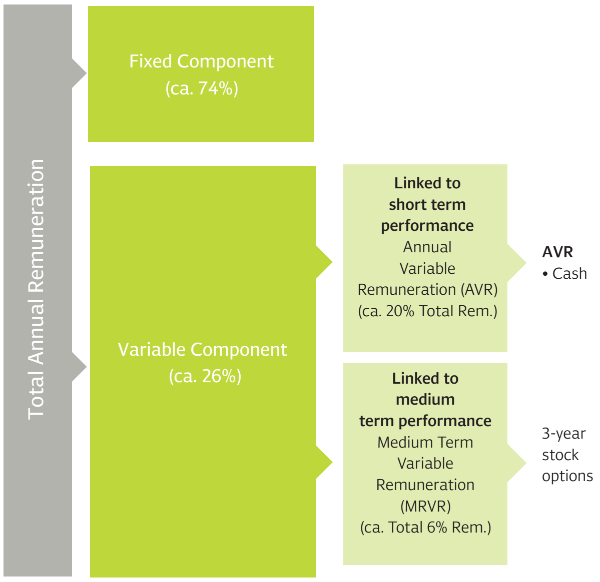
The variable component established for 2010 corresponds to 26% of the average Total Annual Remuneration, although it may reach up to 50% of individual total remuneration.

c) Balanced Remuneration

The fixed component shall represent on average approximately 74% of the total remuneration, the remaining 26% being attributed as a variable component. This is in line with the Recommendations set out in the Bank of Portugal Circular Letter no. 2/2010, which favour a high percentage of the fixed remuneration component relative to the variable remuneration component.

The exact amount of the variable component will vary each year in accordance with the level of achievement of the main annual objectives set individually (quantitative and qualitative) for the senior officer in question and for the respective business unit as a whole, in accordance with BES's performance assessment model approved by the Board of Directors.

d) Criteria for defining the variable component and respective time of payment



The variable component is divided into two sub-components.

A) ***Short term performance (Annual Variable Remuneration)***

The Annual Variable Remuneration («AVR») is linked to Short Term Performance and will correspond on average to approximately 20% of the Total Annual Remuneration.

The AVR will be set by the Board of Directors at the beginning of each year, and calculated based on the Objectives and Incentives System ("SOI") established for each type of area, in accordance with the level of achievement of the main objectives set by the Board of Directors, based on the following indicators:

- Commercial Areas – Volume indicators, Banking Income, Quality Indicators and Cost to Income;
- Central Areas – Operational Risk, Activity Indicators, Quality Indicators and Cost to Income.

The AVR is paid in cash in the first year after the reference date of results, upon approval of the accounts for the year in question.

B) ***Medium Term Performance (Medium Term Variable Remuneration)***

The Medium Term Variable Remuneration («MTVR») is linked to Medium Term Performance and will correspond to approximately 6% of the Total Annual Remuneration.

The MTVR is determined by the Board of Directors at the beginning of each year based on the assessment of the previous year's performance. It will be paid through the attribution of stock options which can only be exercised three years after their date of attribution, thus implying the accrual of their cost over those three years until they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over three years, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the three-year period will be 10% higher than the market price at the beginning of this period.

Applying this assumption of evolution of the share's market price to the reference price used to structure the Stock Options will permit to establish the exercise value of those options and consequently to determine the number of stock options to be attributed each year to each senior officer.

C) *Regulation on the attribution of Options*

The rules on attribution of stock options will be set out in a specific Regulation to be submitted to the General Meeting, for approval.

e) Mechanisms of Limitation of the Variable Remuneration

By definition, the Medium Term Variable Remuneration («MTVR») is limited by the performance of the BES shares, and subject to a deferral period of three years. This remuneration will have no value unless the share price increases by at least 10% over that three-year period.

f) Criteria for performance assessment

Senior officers working in the Commercial areas are assessed based on five variables:

- Results – set of indicators translating the results of the area;
- Banking Income
- Quality – determined by metrics that assess the quality of service provided to the internal/external client;
- Cost to Income (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues setting it against the operating costs incurred;
- Stock market capitalisation - an unequivocal indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective.

Senior officers working in the Central areas are assessed based on five variables:

- Activity – set of indicators translating the results of the area;
- Operational Risk;
- Quality;
- Cost to Income;
- Stock market capitalisation.

g) Criteria for the retention of the shares attributed

The stock options granted to the senior officers can only be exercised after a period of three years.

There is no rule on retention or maintenance of the shares purchased, which can be freely traded upon the exercise of the options.

3. Management Officers (Managers, Assistant Managers and Deputy Managers) in control functions

a) Composition of the Remuneration

The remuneration consists of a fixed component and a variable component.

The Bank's overall remuneration policy is revised every year by the Board of Directors until the end of May. This entails the annual revision of the fixed remuneration in accordance with indicators such as the rate of inflation and the rate of salary increase set by the collective wage agreement (ACTV) for the banking sector, and the setting of a variable component, also before the end of May of each year, based on the assessment of performance in the previous year.

b) Remuneration Limits

The fixed component shall be subject to the limits established by the Board of Directors, and represent on average approximately 85% of the Total Annual Remuneration.

The fixed component consists of the basic salary, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

The variable component established for 2010 corresponds to 15% of the average Total Annual Remuneration, although it may reach up to 30% of individual total remuneration.

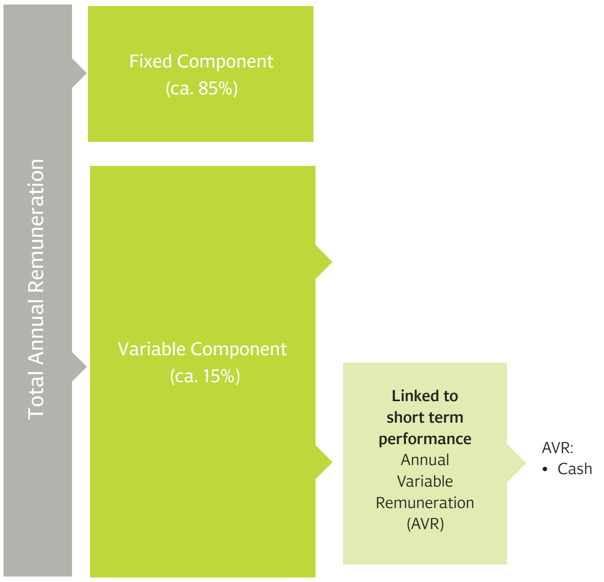
c) Balanced Remuneration

The fixed component shall represent on average approximately 85% of the total remuneration, the remaining 15% being attributed as a variable component.

The exact amount of the variable component will vary each year in accordance with the level of achievement of the main annual objectives set individually (quantitative and qualitative) and for the unit as a whole, in accordance with BES's performance assessment model approved by the Board of Directors.

d) Criteria for defining the variable component and respective time of payment

The variable component is divided into two sub-components.



The Annual Variable Remuneration («AVR») is linked to Short Term Performance and will correspond on average to approximately 15% of the Total Annual Remuneration.

The AVR will be set at the beginning of each year by the Board of Directors, and is calculated based on the Objectives and Incentives System ("SOI") established for the department, in accordance with the level of achievement of the main objectives approved by the Board of Directors, determined on the basis of indicators such as Activity, Costs, Risk and Quality

This objectives matrix also applies to the General Managers, Advisors and Coordinating Managers in control functions.

The AVR is paid in cash on the dividend payment date in the first year after the reference date of results, upon approval of the accounts for the year in question.

e) Performance Assessment Criteria

The Management officers and the General Managers, Advisors and Coordinating Managers in control functions are assessed based on the four variables listed in point 2 (paragraph f), namely Activity, Costs, Risk and Quality.

4. Main parameters and rationale for any annual bonus scheme and any other non-cash benefits attributed to the senior officers

In addition to the fixed and variable components described in this remuneration policy paper, senior officers are granted the following benefits:

- Life Insurance, as defined in article 142 of the ACTV for the banking sector (SAMS)[1];
- Health Insurance, as defined in article 144 of the ACTV for the banking sector (SAMS);
- Personal Accident Insurance, as defined in article 38 of the ACTV for the banking sector (SAMS).

5. Main characteristics of the supplementary pension schemes set up for senior officers

In accordance with the Collective Wage Agreement ("ACTV"), senior officers are currently entitled to receive a retirement pension which is calculated on the basic salary (salary level and seniority payments) and number of years of service in banking, and does not take into account the full remuneration and/or allowances for fixed working hours exemption. In addition, and considering that new employees in the banking sector are since 2009 registered with the Social Security, and that it is obligatory by law to inform every year all the employees who are members of the pension fund about the amount of the pension to which they are entitled at the end of each year, BES decided to set up a defined contribution supplementary pension plan for this group of employees. In order to benefit from this plan, which is optional, the employees have to register with the Social Security and make a 3% contribution of their basic salary to an individual retirement savings plan ("PPR"). BES contributes with 3% of the basic salary to an individual PPR plus a certain percentage to a Group PPR, in order to arrive at a pension corresponding to a certain percentage of the salary (as described below), while also increasing salaries in order to make up for the increase in the employees' social security contributions.

Hence, under this plan, retirement pensions will correspond to the following estimated percentages of the last global salary earned: General Managers, Advisors and Coordinating Managers - 85%; Managers and Assistant Managers - 75%; and Deputy Managers - 70%.

Lisbon, February 26th, 2010.

The Board of Directors

(1) SAMS - medical and healthcare services for banking sector employees

Annex III: Statement of Compliance

(Bank of Portugal Notice 1/2010 (4-1))

Itemised description of the recommendations of Circular Letter no. 2/2010/ DSB, with indication of their implementation or non implementation

REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BODY

Recommendation	Implemented	Not Implemented	Reasons for Non Implementation
Institutions shall adopt a remuneration policy that is consistent with effective risk management and control, prevents excessive risk-taking and potential conflicts of interest and is consistent with the longer-term objectives, values and interests of the institution, namely its targets of sustainable growth and profitability and the protection of the interests of its clients and investors (see I.4. of the Circular Letter).	X		
The remuneration policy shall be appropriate to the scope, nature and complexity of the activity developed or to be developed by the institution, and in particular to current and future risk taking (see I.5. of the Circular Letter).	X		
Institutions shall adopt a clear, transparent, and appropriate structure for the definition, implementation and monitoring of the remuneration policy, identifying in an objective manner the employees engaged in each process as well as the respective responsibilities and powers (see I.6. of the Circular Letter).	X		
The remuneration policy of the management and supervisory bodies shall be approved by a remuneration committee, or when the existence of such a committee is not feasible or appropriate to the size, nature and complexity of the institution in question, by the general meeting or general and supervisory board, as appropriate (see II.1. of the Circular Letter).	X		
The remuneration policy of the remaining employees in question shall be approved by the management body (see II.2. of the Circular Letter).	X		
In order to prevent conflicts of interest and allow for a judgement to be formed about the adequacy of the remuneration policy and its effects on the institution's management of risk, capital and liquidity, persons with functional independence and adequate technical expertise, namely persons from the structural units responsible for control functions, and where necessary, from human resources, as well as external experts, shall participate in the definition of the remuneration policy, (see II.3. of the Circular Letter).	X		
The remuneration policy shall be transparent and easily understandable by all the employees. The remuneration policy shall also be periodically revised, and be formally set out in a specific and dully updated document (or documents), including indication of the date of changes and respective justification, and a file shall be kept of all previous versions (see II.4. of the Circular Letter).	X		
The assessment process, including the criteria used to determine the variable remuneration, shall be communicated to the employees before the period foreseen for the assessment process (see II.5. of the Circular Letter).	X		
The remuneration committee shall revise the remuneration policy and its implementation at least once a year, especially as regards the remuneration of the executive members of the management board, including the remuneration based on shares or options, in order to allow for a reasoned and independent judgement to be formed about the adequacy of the remuneration policy in light of the recommendations of the Circular Letter, and in particular about its effect on the institution's management of risk, capital and liquidity (see III.1. of the Circular Letter).	X		
The members of the remuneration committee shall be independent from the members of the management body and satisfy the reputability and professional qualification conditions required by their functions, and in particular have knowledge of and/or experience in the field of remuneration policy (see III.2. of the Circular Letter).	X		
If in the performance of its duties, the remuneration committee seeks assistance from an external entity with expertise in remuneration practices, it shall not recruit a natural or legal person which provides or has provided, over the past three years, services to any structure subject to the management body or having a current relationship with a consultant of the institution. This recommendation also applies to any natural or legal person related to the above through an employment contract or the provision of services. (see III.3. of the Circular Letter).		X	The external consultant provides additional services to BES in the area of human resources. It is believed that this consultant's knowledge of the organisation and the fact that in the past it provided services to BES is not an impediment to its independence while reinforcing its knowledge about the institution.

Recommendation	Implemented	Not Implemented	Reasons for Non Implementation
The remuneration committee shall every year inform the shareholders about the performance of its duties, and its members shall be present in the general meetings in which the remuneration policy is included in the agenda (see III.4. of the Circular Letter).	X		
The remuneration committee shall meet at least once a year, and draw up minutes of all the meetings held (see III.5. of the Circular Letter).	X		
The remuneration of Board members carrying out executive duties shall include a variable component which is determined by a performance assessment carried out by the institution's competent bodies according to pre-established quantifiable criteria. Said criteria shall take into consideration, in addition to individual performance, the company's real growth and the actual wealth generated for the shareholders, the protection of the interests of clients and investors, its long-term sustainability and the risks taken on, as well as compliance with the rules applicable to the institution's activity (see IV.1. of the Circular Letter).		X	The criteria for assessing the performance of the executive Board members are based on four indicators: - Cost to income (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues, setting it against the operating costs incurred; - Net Income for the year – this indicator translates the contribution to shareholders, already deducted of elements not included in the cost to income, such as the cost of risk, taxes and minority interests; - Return on Equity (ratio of net income to equity) – this indicator provides a measure of the return generated with the funds invested by the shareholders; - Stock market capitalisation – an unequivocal indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective. The performance assessment of the executive Board members does not include non-financial criteria.
The fixed and variable components of total remuneration shall be appropriately balanced. The fixed component shall represent a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration components. The variable component shall be subject to a maximum limit (see IV.2. of the Circular Letter).	X		
A substantial part of the variable component of the remuneration shall be paid in financial instruments issued by the institution, the appreciation of which is dependent on the performance of the institution over the medium and long term. Such financial instruments shall be subject to an appropriate retention policy designed to align incentives with the longer-term interests of the institution, and when not listed on the stock exchange, they should be valued for the purpose at fair value (see IV.3. of the Circular Letter).		X	A substantial part of the remuneration is paid through financial instruments, the value of which is linked to the medium term performance of the BES share price. There is no policy concerning the retention of these financial instruments, which can be freely disposed of upon delivery to the executive Board members.
A significant part of the variable remuneration shall be deferred for a period of no less than three years and its payment shall depend on the institution's steady positive performance during said period (see IV.4. of the Circular Letter).	X		
The part of the variable component subject to deferral shall be all the higher as its relative weigh increases in relation to the fixed component of the remuneration (see IV.5. of the Circular Letter).	X		
The members of the management body shall not enter contracts with the institution or with third parties such as will have the effect of mitigating the risk inherent in the variability of the remuneration established by the institution (see IV.6. of the Circular Letter).	X		
Up to the end of their mandate, the executive members of the management body shall hold, up to twice the value of the total annual remuneration, the institution shares that were allotted to them by virtue of variable remuneration schemes, with the exception of those shares that must be sold for the payment of taxes on the gains of said shares (see IV.7. of the Circular Letter).		X	A substantial part of the remuneration is paid through financial instruments with delivery deferred over a period of three years, the value of which is linked to the medium term performance of the BES share price. There is no rule concerning the retention of the shares acquired.
When the variable remuneration includes stock options, the period for exercising same shall be deferred for no less than three years (see IV.8. of the Circular Letter).	X		
Upon the exercise of the options referred in the preceding paragraph, the executive members of the management body shall retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed (see IV.9. of the Circular Letter).		X	The options can only be exercised three years after they were granted. There is no rule concerning the retention of the shares acquired upon the exercise of the options.
The remuneration of the non executive members of the management body shall not include any component the value of which is subject to the performance or the value of the institution (see IV.10. of the Circular Letter).	X		

Recommendation	Implemented	Not Implemented	Reasons for Non Implementation
The appropriate legal instruments shall be established so that in the event a member of the management body is dismissed without due cause, the envisaged compensation shall not be paid out if the dismissal or termination by agreement is due to that member's inadequate performance (see IV.11. of the Circular Letter).	X		There are no established compensations for any form of dismissal without due cause of a member of the Board of Directors.
When the remuneration of the employees of the institution includes a variable component, it should be appropriately balanced to the fixed component, taking into account the performance, responsibilities and duties of each employee as well as the activity developed by the institution. The fixed component shall represent a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration components. The variable component shall be subject to a maximum limit (see V.1. of the Circular Letter).	X		
A substantial part of the variable component of the remuneration shall be paid in financial instruments issued by the institution, the appreciation of which is dependent on the performance of the institution over the medium and long term. Such financial instruments shall be subject to an appropriate retention policy designed to align incentives with the longer-term interests of the institution, and when not listed on the stock exchange, they should be valued for the purpose at fair value (see IV.3. of the Circular Letter).	X		
Performance assessment shall take into account not only individual performance but also the overall performance of the structural unit where the employee in question is included and that of the institution itself, and include non-financial criteria that are relevant to promote the long-term sustainability and value creation of the institution, such as compliance with applicable rules and procedures, namely internal control rules and rules concerning relations with clients and investors (see V.3. of the Circular Letter).	X		
The award of variable components of remuneration should be subject to predetermined and measurable performance criteria, and the assessment of performance should be set in a multi-year framework (three to five years), in order to ensure that the assessment process is based on longer term performance. (see V.4. of the Circular Letter).		X	The granting of variable remuneration components is subject to predetermined and measurable criteria. However, because of the low weight of this component relative to the total remuneration, it is believed it should be linked to the achievement or non achievement of objectives for the year in question, and therefore the performance assessment criteria do not consider a multi-year framework. For the specific group of General Managers, Advisors to the Board of Directors and Coordinating Managers, there is a variable component consisting of stock options with exercise deferred for 3 years.
The variable remuneration, including the deferred portion, shall be paid or vest only if it is sustainable in light of the financial situation of the institution as a whole, and justified according to the performance of the structural unit and the individual concerned. All things being equal, the total variable remuneration should be considerably reduced where subdued or negative financial performance of the institution occurs (see V.5. of the Circular Letter).	X		
A significant part of the variable remuneration shall be deferred for a period of no less than three years and its payment shall depend of future performance as measured by risk-adjusted criteria that take into account the risks inherent to the activity on which the allocation of said remuneration is based (see V.6. of the Circular Letter).		X	The variable component represents a low percentage (ca. 26%) of the remuneration of the senior officers. However, the objectives system set for all these officers stresses the variable component and is perfectly appropriate to their specific activity.
The part of the variable component subject to deferral under the terms of the preceding paragraph shall be all the higher as its relative weigh increases in relation to the fixed component of the remuneration. The deferred percentage should increase significantly in accordance with the hierarchical level and the level of responsibility of the employee in question (see V.7. of the Circular Letter).		X	Not applicable in view of the content of V.6
Employees whose duties involve control functions shall be remunerated in accordance with the achievement of the targets set for their functions, regardless of the performance of areas under their control. Remuneration should provide a reward that is appropriate to the relevance of the exercise of their functions (see V.8. of the Circular Letter).	X		

Excerpt from the minutes of the Annual General Shareholders' Meeting of Banco Espírito Santo, S.A.

Minutes no. 73

At ten hours on April sixth, in the year two thousand and ten, the Annual General Meeting of the Shareholders of Banco Espírito Santo, S.A. was held at the Hotel Ritz – Salão Nobre, at number seventy seven, Rua Castilho, in Lisbon, with the following Agenda:

1 - To resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to fiscal year 2009 accounts;
2 - To resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to fiscal year 2009 accounts;
3 - To resolve on the allocation of earnings;
4 - To make a general assessment of BES' management and supervision;
5 - In view of the recommendations recently issued by the supervision authorities, to resolve on the Remuneration Committee and Board of Directors' statements on the remuneration policy of BES' corporate and supervision bodies and remaining BES managers, respectively;
6 - To resolve on the creation of a variable remuneration plan based on financial instruments for the members of BES' Executive Committee;
7 - To resolve on the creation of a variable remuneration plan based on financial instruments for BES' General Managers, Advisors to the Board of Directors and Coordinating Managers;
8 - Conditional upon the approval of the proposal to change the remuneration policy of BES' corporate and supervision bodies, to resolve on the partial alteration of the «Regulation on the Right of Directors to a Pension or Complementary Pension Benefits for Old Age or Disability", amending articles 1 and 7 thereof;
9 - To resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES' control;
10 - To resolve on the partial amendment to the articles of association, namely the
amendment of Article 24 (3) and Article 32 (1);
11 - To deliberate on whether or not to maintain the group relationship with the companies whose share capital is fully held by BES, under the terms and for the purposes of Article 489 (2-c)) of the Portuguese Companies Code.

Due to impediment of the Chairman of the Board of the General Meeting, Mr. Paulo de Pitta e Cunha, the works of the meeting were chaired by its Vice-Chairman, Mr. Fernão de Carvalho Fernandes Thomaz, under the terms of the regulation of the General Meeting of BES Shareholders and the Company's bylaws. The Board of the General Meeting consisted of its Vice-Chairman, its secretary, Mr. Nuno Miguel Matos Silva Pires Pombo, and the Secretary of the Company, Mr. Eugénio Fernando de Jesus Quintais Lopes. Also present in the meeting were the majority of the members of the Board of Directors, all the members of the Audit Committee and of the Remuneration Committee, and the certified auditor, Ms. Sílvia Cristina de Sá Velho Corrêa da Silva Gomes.
The Chairman of the Board of the General Meeting declared the session opened, after ascertaining that there was a quorum of shareholders present or represented owning 827,956,323 shares, corresponding to 70.97% of the share capital and to 8,279,393 votes, and that the General Meeting had been regularly called as per notices published on the DGRN-Publicações website of the Ministry of Justice, on the Portuguese Securities Market Commission website and on the website of BES on March 3rd, 2010, and also on the Diário de Notícias, Jornal de Notícias, Diário de Notícias – Madeira and Açoriano Oriental newspapers on March 4th, 2010, the list of shareholders whose individual holdings exceed 2% of the Bank's share capital having also been published on the Diário de Notícias and Jornal de Notícias newspapers on March 31st, 2010, and on the Correio da Manhã newspaper on April 1st, 2010.
Going into the Agenda, the Chairman of the General Meeting informed the shareholders present that, because the proposal on the allocation of earnings is included in the 2009 Annual Report, in which both the consolidated and the individual accounts are dealt with, the proposals included in items 1, 2 and 3 would be jointly discussed, although being voted individually.

Mr. Fernão Thomaz then asked the Secretary of the Board of the General Meeting to read the proposals included in said three items, which he did, the content of which is herein transcribed, as follows:

Item 1 "Proposal for the approval of the Management Report, Corporate Governance Report and other individual reporting documents for the financial year of 2009. The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Management Report, the Corporate Governance Report and other reporting documents of BANCO ESPÍRITO SANTO, S.A. for the financial year of 2009 to the Shareholders, for appreciation and discussion, proposing their approval."

Item 2 "Proposal for the approval of the Consolidated Management Report, Consolidated Accounts and other consolidated reporting documents of BANCO ESPÍRITO SANTO, S.A. for the financial year of 2009. The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Consolidated Management Report, the Consolidated Accounts and other consolidated reporting documents of BANCO ESPÍRITO SANTO, S.A. relative to the financial year of 2009 to the Shareholders, for appreciation and discussion, proposing their approval."

Item 3 "Proposal on the allocation of earnings. The Board of Directors of BANCO ESPÍRITO SANTO, S.A. proposes that: Pursuant to Article 376 (b)) of the Companies Code, and in accordance with the Management Report, the Company's net earnings of the year, amounting to EUR 368,844,657.27, be allocated as follows:

	Euros
TO LEGAL RESERVE:	37,000,000.00
FOR DISTRIBUTION TO THE SHAREHOLDERS:	163,333,000.00
TO OTHER RESERVES:	168,511,657.27

(...)
At this point the Board of the General Meeting was informed that the number of shares owned by the Shareholders present or represented was 828,592,429, corresponding to 71.02% of the share capital, and to 8,285,747 votes.
The meeting then voted separately on items 1, 2 and 3 or the Agenda, the corresponding proposals having once again been read aloud.

Concerning Item 1 - "To resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to fiscal year 2009 accounts", the Proposal was approved by a majority of 8,230,167 votes, with 2,196 dissenting votes and 51,042 abstentions, making a total of 8,283,405 votes.

Concerning Item 2 - "To resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to fiscal year 2009 accounts", the Proposal was approved by a majority of 8,233,144 votes, with 74 dissenting votes and 50,187 abstentions, making a total of 8,283,405 votes.

And concerning Item 3 - "To resolve on the allocation of earnings", the Proposal was approved by a majority of 8,273,256 votes, with 1,581 dissenting votes and 8,498 abstentions, making a total of 8.283.335 votes.

Going into Item 4 in the Agenda - “To make a general assessment of BES’ management and supervision” -, the Chairman of the Board of the GM said that this proposal aims to meet the requirements of Article 455 of the Portuguese Companies Code, as referred in the content of the Proposal itself, which was submitted by the Shareholder “BESPAR – Sociedade Gestora de Participações Sociais, S.A.” as transcribed below:

“Proposal of assessment of the management and supervision bodies.
Pursuant to the terms of Article 455 (1) of the Companies Code, which requires the Annual General Meeting to make a general assessment of the management and supervision of the company;

Considering the results of the activity of Banco Espírito Santo, S.A. during the financial year of 2009, which bear witness to the correctness of the strategic and management orientations implemented by its Board of Directors during the financial year in question;

Considering also the commitment with which the Audit Committee carried out its supervision duties;

It is proposed that the General Meeting approve an expression of praise and a vote of confidence in the Board of Directors and the Audit Committee of the Company, and in each of the respective members.”

(...)
This Proposal was put to the vote and was approved by a majority of 8,265,521 votes, with 2,433 dissenting votes and 15,381 abstentions, making a total of 8,283,335 votes.

(...)
There being no further matters to discuss, the Chairman of the Board of the General Meeting declared the meeting closed at thirteen hours and thirty minutes, in record whereof these minutes have been drawn up and will be signed by the Members of the Board of the General Meeting and by the Company Secretary.