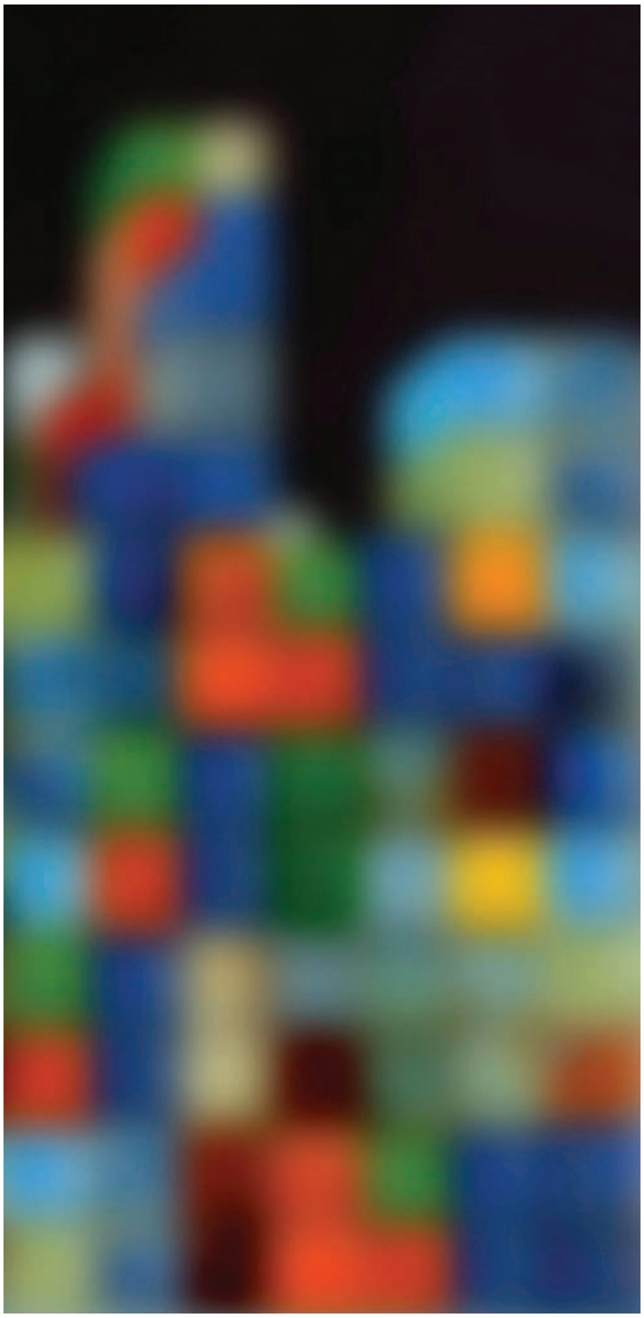
2010
Annual Report



GRUPO BANCO ESPIRITO SANTO

Nighttime for BES in São Paulo // Sunrise for BES in Paris

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

Main Indicators

	2006	2007	2008	2009	2010
Activity (euro million)					
Total Assets [1]	84,628	93,819	98,825	106,513	105,540
Net Assets	59,139	68,355	75,187	82,297	83,655
Customer Loans (incl. securitised)	40,546	47,389	51,964	53,958	55,713
Customer Deposits	21,994	23,775	26,387	25,447	30,819
Total Customer Funds	49,632	55,445	55,698	60,595	55,988
Equity & Quasi Equity	7,063	7,509	7,482	9,578	9,768
Profitability (%)					
Return of Equity	14.7	16.6	9.8	10.0	8.6
Return ofn Assets	0.81	0.98	0.56	0.66	0.61
Solvency (%)					
Bank of Portugal [2]					
- Total Solvency Ratio	13.1	11.5	11.3	11.2	11.3
- Tier I	8.4	7.5	7.1	8.3	8.8
- Core Tier I	7.0	6.6	6.1	8.0	7.9
Liquidity (euro million)					
ECB funds (net) [3]	331	- 2,158	250	- 1,760	3,929
ECB Eligible Assets (collaterals)	-	1,987	4,645	5,925	10,800
Loans to Deposits Ratio (%)	159%	177%	178%	192%	165%
Asset Quality (%)					
Overdue Loans > 90 days / Gross Loans	1.11	1.00	1.09	1.60	1.95
Provisions / Overdue Loans > 90 Days	218.2	228.8	219.0	191.5	173.0
Credit Provisions Reserve / Customer Loans (Gross)	2.43	2.29	2.38	3.07	3.38
Cost of Risk [4]	0.51	0.49	0.57	1.07	0.67
Productivity / Efficiency					
Operating Costs / Total Assets (%)	1.05	1.01	1.01	0.99	1.11
Assets per Employee (€,000)	11,153	11,184	11,051	11,965	10,706
Total Cost to Income (%)	52.3	47.5	53.0	43.1	48.6
Commercial Cost to Income (%)	61.9	59.5	58.2	55.0	59.3
Employees					
Total [5]	7,588	8,389	8,943	8,902	9,858
- Domestic Activity	6,500	7,110	7,546	7,388	7,584
- International Activity	1,088	1,279	1,397	1,514	2,274
Branch Network					
Retail Network	669	757	803	799	828
- Domestic	623	700	743	734	731
- International	46	57	60	65	97
Prvate Banking Network	29	29	28	25	22
Corporate Network	27	27	27	26	24
Rating					
Long Term					
Standard and Poor's	A -	A	A	A	A -
Moody's	A 1	Aa3	Aa3	A1	A2
Short Term					
Standard and Poor's	A 2	A 1	A 1	A 1	A 2
Moody's	P 1	P 1	P 1	P 1	P 1

(1) Net Assets + Asset Management + Other off-balance sheets + Securitised Credit
(2) 2008, 2009 and 2010 data calculated based on IRB Foundation method
(3) Positive figure represents a borrowing position; negative figure represents a lending position
(4) Credit provision charge (P&L provisions / Gross Loans)
(5) Includes permanent employees and term contract employees

Results and Profitability

	SIMBOL.	2006	2007	2008	2009	2010
Average Balance (euro million)						
Net Assets	NA	51,696	62,189	71,418	78,657	83,759
Interest Earning Assets	IEA	45,377	53,701	61,788	68,018	72,163
Capital and Reserves	KP	2,642	3,457	3,779	4,886	5,578
Income Statement (euro million)						
Net Interest Income	NII	829.5	953.7	1,086.2	1,200.9	1,164.0
+ Fees and Commissions	FC	610.5	643.4	636.2	717.9	806.9
= Commercial Banking Income	CBI	1,440.0	1,597.1	1,722.4	1,918.8	1,970.9
+ Capital Markets and Other results	CMR	264.8	404.1	165.7	530.6	432.9
= Banking Income	BI	1,704.8	2,001.2	1,888.1	2,449.4	2,403.8
- Operating Costs	OC	891.3	950.7	1,001.6	1,055.7	1,169.5
= Net Operating Income	OI	813.5	1,050.5	886.5	1,393.7	1,234.3
- Net Provisions	PROV	241.9	262.9	375.8	708.8	533.6
= Income before Taxes and Minorities	PBT	571.6	787.6	510.7	684.9	700.7
- Income Tax	T	135.4	152.5	83.5	109.8	43.7
- Minority Interests	MI	15.5	28.0	24.9	53.0	146.5
= Net Income	NI	420.7	607.1	402.3	522.1	510.5
Profitability (%)						
Net Interest Margin	NII / IEA	1.83	1.78	1.76	1.77	1.61
+ Return on Fees and Commissions	IC / IEA	1.35	1.20	1.03	1.06	1.12
+ Return on Capital Markets and Other Results	CM / IEA	0.58	0.75	0.27	0.78	0.60
= Business Margin	BI / IEA	3.76	3.73	3.06	3.60	3.33
- Weighting of Operating Costs	OC / IEA	1.96	1.77	1.62	1.55	1.62
- Weighting of Provisions	PROV / IEA	0.53	0.49	0.61	1.04	0.74
- Weighting of Minorities and other	(MI+IT+XR) / IEA	0.33	0.34	0.18	0.24	0.26
= Return on Interest Earning Assets	NP / IEA	0.93	1.13	0.65	0.77	0.71
x Weighting of Interest Earning Assets	IEA / NA	0.88	0.86	0.87	0.86	0.86
= Return on Assets	NP / NA	0.81	0.98	0.56	0.66	0.61
x Placements multiplier	NA / KP	18.01	17.00	17.32	15.07	14.03
= Return on Equity	NP / KP	14.66	16.59	9.76	10.00	8.55

The table below lists the reference indicators established by Bank of Portugal Instruction no. 16/2004, for both December 2010 and 2009.

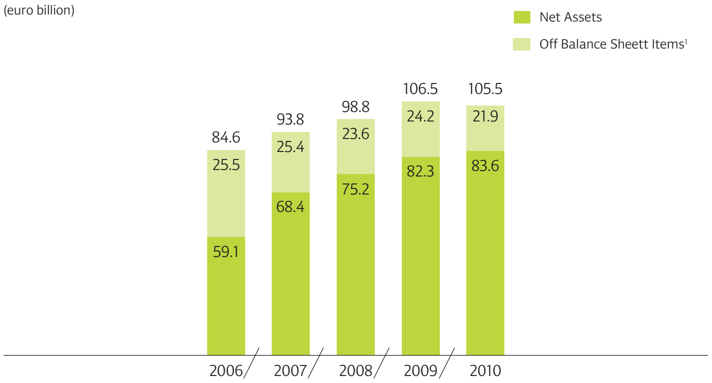
Bank of Portugal reference Indicators

	2009	2010
Solvency		
Regulatory Capital / Risk Weighted Assets [a]	11.2	11.3
Tier I Capital / Risk Weighted Assets [a]	8.3%	8.8%
Asset Quality		
Overdue and Doubtful Loans [b]/ Gross Loans	2.3%	2.7%
Overdue and Doubtful Loans net of Impairments [c]/ Total Net Loans[c]	-0.8%	-0.7%
Profitability		
Income before Taxes and Minorities/Average Equity[d]	12.1%	10.3%
Banking Income [e]/Average Net Assets	3.1%	2.9%
Income before Taxes and Minorities/Average Net Assets	0.9%	0.8%
Efficiency		
General Admin Costs[e]+Depreciation/Banking Income[e]	43.1%	48.6%
Staff Costs / Banking Income[e]	23.1%	26.1%

(a) Under IRB Foundation
(b) According to Bank of Portugal Circular Letter 99/2003/DSB
(c) Credit net of Impairments
(d) Includes Average Minority Interests
(e) According to BoP Instruction 16/2004

Total Assets

(euro billion)



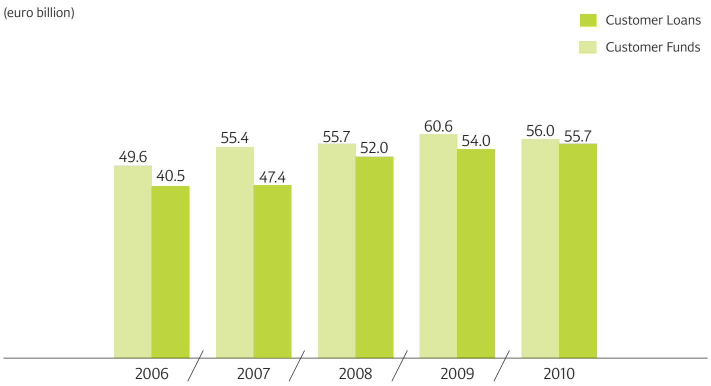
[1]Assets and Liabilities

Net Income

(euro million)

Activity[2]

(euro billion)



[2] Includes Asset and Liability Off Balance Sheet Items

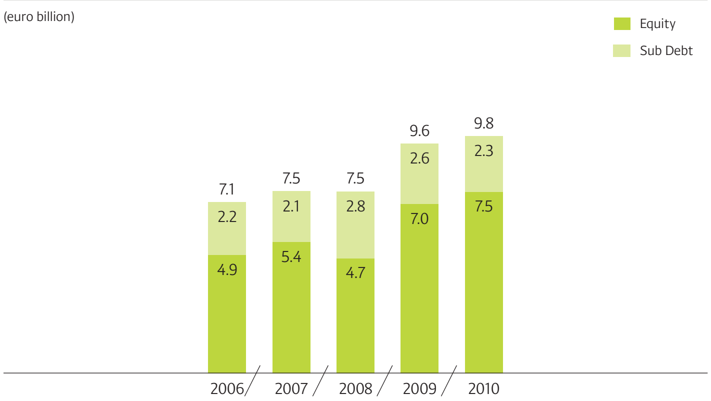
Asset Quality

(%)

[(a)] Overdue Loans > 90 days / Gross Loans

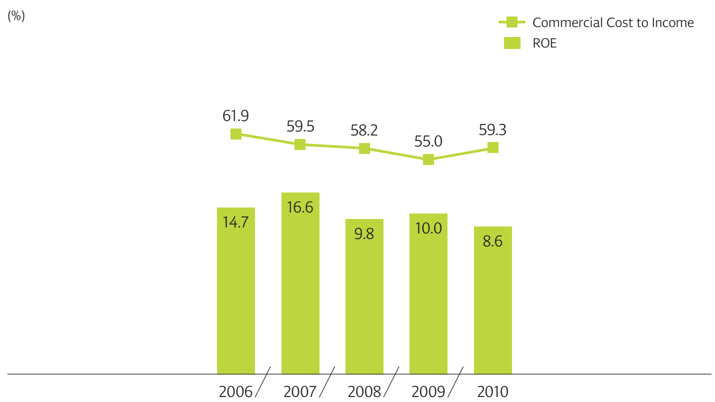
Equity and Quasi Equity

(euro billion)



Profitability and Efficiency

(%)




Nighttime for BES in New York // Sunrise for BES in Shanghai

I Management Report

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

Dear Shareholders,

2010 was marked by a climate of great instability, especially in Euro Area peripheral countries, such as Greece, Ireland, Spain and Portugal. As a response to the 2008 financial crisis, most European governments adopted economic stimulus measures in 2009 that prompted a general rise in fiscal deficits. The risk of these countries defaulting on their sovereign debt rose significantly and triggered successive cuts in the ratings of both governments and banking system.

Market turmoil and funding difficulties increased considerably following the downgrade of sovereign ratings for Greece, Portugal and Spain. After a general review of peripheral European countries' credit ratings, international rating agency Standard & Poor's downgraded in April 2010 by two notches to A- the long-term rating of the Republic of Portugal, while its short-term rating was lowered to A2. As a consequence, the ratings of Portuguese banks were also revised downward, which restricted severely their access to financial markets, in particular for short-term funding. High risk aversion to peripheral countries led to lower flows from capital markets to these economies as rating agencies continued to cut ratings – in July the Portuguese banks' ratings suffered a new cut. In this extremely adverse environment, the liquidity provided by the European Central Bank (ECB) was crucial to bridge the impaired access of Portuguese banks to debt markets.

Under growing pressure from international capital markets, Greece was forced in May to seek financial support from the European Union (EU) and the International Monetary Fund (IMF). However, this was not enough to stem market pressure, which focused on the solvency of peripheral economies and the lack of cohesion within the Euro Area itself, raising the possibility of other countries having to seek assistance from the EU and the IMF, as Ireland would be forced to in November, due to the difficulties experienced by its banking system.

In this challenging environment of uncertainty and market volatility, BES Group maintained strict financial discipline in 2010 and attempted to diversify funding sources, boosting investments in more liquidity assets, particularly those eligible for rediscounting at central banks, in particular the ECB, as a way of remedying the lack of access to medium term market funds, especially in the third quarter of the year.

Despite the climate of instability and increasing difficulty in accessing markets, which affected Portuguese issuers broadly, the BES Group took advantage of the few windows of opportunity that opened in the first months of the year, by launching debt issues that were placed with institutional investors. By April, the Group had placed the following issues: EUR 750 million five-year senior debt, under the Euro Medium Term Notes programme; USD 500 million senior note placed by BES Investimento's Brazilian subsidiary; and two issues of exchangeable bonds, one linked to the common shares of Banco Bradesco (USD 950 million) and another to the common shares of EDP (EUR 500 million).

In view of the market restraints faced by the Portuguese banks, strict balance sheet management measures were taken in the second half of the year to reach a credit/deposit ratio of 120% by the end of 2012. These measures included the sale of assets not correlated with either peripheral Europe (involving the sale, at the end of 2010, of approximately EUR 1 billion worth of loans) or the emerging markets where BES Group operates, combined with increased efforts to attract customer deposits. The impact of these measures was already visible in 2010: the credit/deposit ratio dropped from 198% in June to 165% in December, while customer deposits as a share of the bank's funding structure increased from 45% in 2009 to 52% at 2010 year-end. At the same time, the Group reduced its net borrowing position at the ECB by EUR 2.1 billion, from EUR 6.0 billion at the end of June to EUR 3.9 billion at the end of December.

The BES Group posted net income for the year of EUR 510.5 million, thus proving its capacity to generate positive results under extremely adverse conditions. On the basis of these resilient results, the Board of Directors decided to propose to the General Meeting the distribution of a dividend of EUR 0.126 per share, implying a payout ratio of 28.8% and a dividend yield of 4.4%. This dividend reflects a balanced relationship between retained earnings (approximately two thirds of the results) whose purpose is to add to the Group's financial strength and the goal of providing an adequate return to shareholders. The BES Group has a solid capital base, with a Core Tier I ratio of 7.9%, and its earnings have proved to be resilient, year after year. Towards the end of the year, the Group placed with its retail clients a EUR 320 million perpetual bond issue that strengthened the Tier I ratio to 8.8%.

In a context of sovereign risk crisis in the Euro Area, Portugal adopted severely austerity measures to reduce the fiscal deficit from 9.3% of GDP in 2009 to 4.6% of GDP in 2011. In 2010, the Portuguese fiscal deficit dropped to 6.9% of GDP, while GDP growth exceeded expectations and rose by 1.4%. This clearly contrasts with the situation in Greece, Ireland and Spain, where the economy deteriorated. The dynamism of exports was again a decisive factor in the growth of the Portuguese economy: exports increased by 8.8% in real terms, driven by the ability of our entrepreneurs to create value and seek alternatives in foreign markets.

BES Group is proud of being the bank that contributes most to the efforts of companies to export their goods and services. BES Group has developed and expanded its international presence in tandem with the internationalisation of companies into new markets, creating the conditions to be their local partner and to support their transnational projects. The Group's strong positioning in the corporate segment is reflected by the progressive increase in its share of this market, which had reached 24.9% at the end of 2010, and particularly by the trade finance activity, which grew by 75.5% year-on-year and achieved a market share of 27.2%.

Today, BES is the most international of all Portuguese private-sector banks and is present in 23 countries, in four continents. The expansion of international activities has been crucial to offset the domestic contraction, with international results already accounting for 48% of net and recurrent consolidated earnings. The strategic triangle (Iberia, Brazil and Angola) already accounts for 67% of earnings generated by units abroad and 27% of total consolidated earnings.

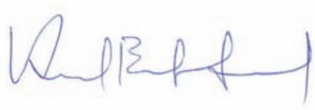
The South Atlantic has increasingly played an important role in the Portuguese economy, and stronger economic links between South America, Africa and Europe have promoted growth among Portuguese companies. In addition, Brazilian and Spanish companies are increasingly attracted to the African markets where BES Group has a presence, that is, Angola, Cape Verde and, more recently, Mozambique. The BES Group has continued to expand into priority locations, such as Libya, where it acquired in 2010 a 40% equity stake and management control of Aman Bank. The Group's presence in Libya provides an important platform for the establishment of links with the North African countries that are an increasingly important destination for Portuguese exports.

The success of our international strategy and the good results achieved in 2010 show that the Bank is at the forefront of the Portuguese financial services industry. This is particularly clear in the way in which, over the years, the Bank has integrated sustainability into its business model. As a strategic trend in the Group's activity, this positioning led this year to the integration of the Sustainability Report into the Group's Annual Report. In addition, our commitment to sustainability underlines our role in the construction of a sustainable future, a vision that has helped us to overcome the challenges of the present.

Banco Espírito Santo continues to prove that it is a solid bank, with a consistent strategy and the ability to weather the most difficult challenges with wisdom, rigour and vision. We firmly believe that our sound management model and consistent strategy are the cornerstones for continued shareholder value creation. Quoting an advertisement recently broadcast by BES, "From Africa to America, from Europe to Asia, we are always awake, wherever the world is waking up. Day after day, innovating, studying, becoming stronger. We never stop, in a world that never stops. For over 140 years changing with the world".

To our management team and all our employees, we wish to address a special word of thanks for their hard work that was instrumental in overcoming this difficult year of 2010. Their commitment is of paramount importance for BES to face up to the current challenges and continue to be a model bank in Portugal and the world.

We would like to finish our message by extending our recognition to government and supervision authorities for their cooperation and trust in the Banco Espírito Santo Group.



Ricardo Espírito Santo Silva Salgado
Chairman of the Executive Committee
Vice-Chairman of the Board of Directors

Alberto Oliveira Pinto
Chairman of the Board of Directors

1 BES Group

1.1. BES Group at a glance

With a history of 140 years, Banco Espírito Santo's activity is to create value for shareholders, while simultaneously seeking to meet the needs of its clients and ensure the professional fulfilment of its employees. Its first and foremost mission is to align a strategy of constant reinforcement of its competitive position in the market with absolute respect for the interests and wellbeing of its Clients and Employees.

The Bank is aware of its duty to actively contribute to the economic, social, cultural and environmental development of the country and of the communities among which it develops its activity.

With a presence in four continents, activity in 23 countries and employing 9,800 people, BES Group is currently the Portuguese financial group with the largest market capitalisation and the second largest private-sector group by total assets.

BES is a unique case of organic growth in the Portuguese financial system that has steadily increased its market share from 8.5% when it was privatised in 1991/1992 to 20.3% in 2010. Service quality and innovation are differentiating factors that make BES a household name.

BES Group offers a full range of banking products and financial services, including savings products, deposits, asset management, credit, investment banking and brokerage to approximately 2.1 million clients. The Group also develops complementary activities such as leasing and factoring and the sale of life and non-life insurance products.

Distribution Channels

To improve customer service, BES Group has implemented a programme of modernisation and refurbishment of its branches, while stressing the differentiation of the various business areas and providing the sales force with adequate training to better meet the needs of its clients.

Distribution capacity has been a key factor to strengthen the Bank's competitive position. To expand the branch network across the national territory, new formats were designed that are more efficient and more flexible – smaller branches and onsite branches in partnership with insurance agents within the scope of the Assurfinance programme.

The Assurfinance programme was created under a partnership between BES and Companhia de Seguros Tranquilidade with the goal of capturing Tranquilidade clients with no banking relationship with the BES Group, while offering Tranquilidade agents the possibility of cross-selling a vast range of BES Group products designed to meet the needs of Tranquilidade clients.

The onsite branches, which offer an integrated array of banking and insurance products, facilitate BES's presence in areas of lower population density. In 2010, the Assurfinance programme contributed 15.2% to the number of new clients, thus promoting a wider integration of the Portuguese population within the financial world.

At the end of 2010 the network consisted of 731 branches in Portugal (including 44 on-site branches resulting from partnerships with insurance agents under the Assurfinance programme), and 97 branches abroad (25 in Spain, 36 in Angola and 30 in Libya). The retail network is complemented by 22 Private Banking Centres and 24 Corporate Centres.

To distribute its products and services, beyond its network network of branches, onsite branches and specialised units, BES has also implemented in Portugal a multi-channel approach that relies on alternative channels such as real estate agents and other external promoters, the internet, 3-G mobile phones, fixed-line phones and text messaging.

1.2. Milestones

The Origins – from *Caza de Cambio* to BESCL

BES's origins date back to 1869, when José Maria do Espírito Santo e Silva, together with other investors, opened a *Caza de Cambio*, the foreign exchange business that eventually gave rise to Banco Espírito Santo, in 1920. In the 30s, BES becomes the leading private bank in Portugal and changes its name to Banco Espírito Santo e Comercial de Lisboa (BESCL) after it merged with Banco Comercial de Lisboa in 1937. With an innovative management model focused on the expansion of the retail network and consequent increase in market share, the diversification of banking transactions, and modernisation, BESCL successfully weathers the effects of two world wars.

70s – from internationalisation to nationalisation

In 1972 BESCL co-founds Libra Bank, based in London, and in the following year sets up Banco Inter Unido under a joint venture with the First National City Bank of New York.

In 1975 the Portuguese government nationalises all national insurance companies and credit institutions, including BES. Prevented from developing its activities in Portugal, the Espírito Santo family rebuilds its financial interests abroad and creates the Espírito Santo Group (GES).

80s – the return of Espírito Santo Group to Portugal

Espírito Santo Group develops its activities in Brazil, Switzerland, France and the United States of America.

In 1986 the Portuguese government initiates a programme of reprivatisations. With banking activity once again open to the private sector, the Espírito Santo Group, under a joint venture with Caisse Nationale du Crédit Agricole and backed by a group of Portuguese investors, establishes Banco Internacional de Crédito, which marks the return of the Group to Portugal. In the same year, the Espírito Santo Group creates Espírito Santo Sociedade de Investimento (the predecessor of BES Investimento), with the participation of Union des Banques Suisses (Switzerland), Kredietbank (Luxembourg), and other financial institutions. In 1989 Sociedade Euroges is set up to develop factoring activities.

1869-1884


1897-1911


1911-1915


1916-1920


1920-1931

90s – from the privatisation of BESCL to BES

In 1990, Bescleasing is created to develop leasing activities.

BESCL's privatisation started in 1991, and was completed in 1992 by the Espírito Santo Group's acquisition of the majority of its shares in joint venture with Crédit Agricole.

During the 90s, BESCL expands its geographical reach and scope of activities, and makes a number of investments. In 1991, the bank sets up Crediflash (consumer credit) and purchases ESER, Sociedade Financeira de Corretagem.

In 1992, BESCL acquires Banco Industrial del Mediterráneo, which later changed its name to Banco Espírito Santo (Spain), and creates ESAF- Espírito Santo Activos Financeiros (asset management). In 1995, BESCL opens for business in Macao through Banco Espírito Santo do Oriente.

By public deed of July 6th, 1999 BESCL changes its name to BES.

The new millennium – consolidation of the strategy in Portugal and reinforcement of international expansion

2000 - 2001 2000 and 2001 mark the first steps on the "strategic triangle": the Group strengthens its position in Spain, enters a partnership with Banco Bradesco in Brazil, and creates BES Angola.

In 2000, BES consolidates its position in Spain through the acquisition of Benito y Monjardín and GES Capital, and acquires Espírito Santo Bank in the United States.

Pursuing the international expansion of its activities, BES Group establishes an important joint venture with the Bradesco Group in Brazil involving the acquisition by BES of 3.25% in Bradesco and the acquisition by Bradesco of 3% in BES. This partnership leads to joint ownership of BES Investimento do Brasil and broker BES Securities do Brasil. In the same year, a joint venture is set up with Portugal Telecom that led to the creation, in 2001, of Banco BEST - Banco Electrónico de Serviço Total.

BES Angola, a bank established under Angolan law, is incorporated in 2001. Banco Espírito Santo takes a pioneering approach to service quality, creating its own method to measure and report on the quality of the services provided to clients.

2002 - 2003 In 2002, BES dos Açores opens for business and in 2003 BES acquires a 45% stake in Locarent (rent-a-car) under a joint venture with CGD and Serfingest, SGPS. In the same year, ES Dealer is integrated into Banco Espírito Santo de Investimento.

2004 - 2005 In 2004, the merger by incorporation of Euroges, Besleasing Mobiliária and Besleasing Imobiliária is completed, which originates Besleasing e Factoring, Instituição Financeira de Crédito, S.A.

In the same year, BES becomes the first Portuguese bank to publish a Sustainability Report.

BES's subsidiary in Spain enters into an agreement with Hypovereinsbank for the acquisition of the entire share capital of Banco Inversión (Spain). The transaction is authorised by the Bank of Spain at the beginning of 2005 and concluded in that year.

In 2005, BES increases its voting rights in Banco Bradesco S.A. from 3.56% to 6.74%. In October of the same year BES Investimento and Concórdia Sp z.o.o., a Polish financial consultancy based in Warsaw, set up a joint venture to create Concordia Espírito Santo Investment (CESI).

In December, Banco Internacional de Crédito is merged into BES. Also in December, BESI becomes the first Portuguese bank to subscribe to the Equator Principles.

2006 - 2007 In January 2006, BES Group launches a new corporate identity under the brand logo "Green Future". The merger by incorporation of Crediflash into BES is approved in February and completed in May. Also in February, BES's Board of Directors approves the acquisition of 50% of Companhia de Seguros Tranquilidade Vida, as well as the sale of a 15% stake in Espírito Santo Companhia de Seguros, S.A. Both transactions are completed in June, and these companies change their names to BES Vida, Companhia de Seguros (BES Vida) and BES, Companhia de Seguros (BES Seguros), respectively.

In May 2007, BES announces the conclusion of its merger with Spanish subsidiary Banco Espírito Santo (Spain). Also in 2007, BES becomes part of the FTSE4Good Index Series, an international benchmark that reflects the performance of listed companies with the best sustainable development practices.

2008 - 2009 In a joint venture with ESAF, BES Angola sets up in March 2008 BESA-ACTIF, the first fund management firm to operate in Angola.

BES's General Meeting of March 31st elects the new governing bodies for 2008-2011, raising the number of independent board members in line with the best corporate governance practices.

In 2009, Avistar is created as the company owning BES's strategic holdings, namely in Portugal Telecom, EDP, Banco Bradesco. BES África is also established as the holding company for the Group's strategic interests in Africa.

BES Investimento announces the expansion of its operations in the United States, opening a branch in New York.

In November, BES Group enters into an agreement to acquire a 40% stake in Aman Bank for Commerce and Investment Stock Company (Aman Bank), a private bank headquartered in Tripoli, Libya.

In December, BES sells a 24% stake in BES Angola for USD 375 million and agrees with Banque Extérieure d'Algérie and Swicorp Ijar to set up a leasing company in Algeria, in which BES will have a stake of 34%.

1932-1937 | 1937-1964 | 1965-1990 | 1965-1990 | 1990-2005

1.3. Main Events in 2010

JANUARY

13 Issue of EUR 750 million senior debt, under the Euro Medium Term Notes Programme.

14 To celebrate the International Year of Biodiversity, BES and the WWF - World Wide Fund for Nature launch a card to support nature and biodiversity conservation projects.

18 Launch of BES's new website.

27 BES Group reports 2009 consolidated results. Net income totals EUR 522.1 million, a year-on-year increase of 29.8%, with a return on equity (ROE) at 10%.

FEBRUARY

08 After joining the United Nations Environmental Programme Finance Initiative (UNEP FI), BES organises the first of four workshops included it its Banking&Environment Programme.

16 BES participates in the HSBC Financials conference in London.

23 Filipa César wins the 6th edition of the BES Photo Prize.

MARCH

18 BESI Brasil issues 5-year senior debt for USD 500 million.

23 BES participates in Morgan Stanley's European Financials' international conference in London.

26 BES participates in the Santander Portuguese Conference in Lisbon.

30 Fitch Ratings agency affirms the ratings of Banco Espírito Santo, changing the outlook to "Negative" (A+/Neg/F1), from "Stable".

APRIL

6 BES's Annual General Meeting (AGM) approves the management report, the corporate governance report, the individual and consolidated accounts and other accounting documents for 2009, as well as the proposed allocation of 2009 net income; the AGM also approves the remuneration policies of the management and supervisory bodies and other senior officers of the bank, as well as the creation of a variable remuneration plan based on financial instruments for the members of the Executive Committee, General Managers, Advisors to the Board of Directors and Coordinating Managers of BES.

16 BES completes the acquisition, for the equivalent of EUR 23.3 million, of 40% of Aman Bank for Commerce and Investment Stock Company, a privately owned bank in Libya with registered office in Tripoli, and simultaneously subscribes to new shares in proportion to the acquired stake of 40%, bringing its total investment to EUR 40.3 million. BES takes management control of Aman Bank.

22 The 4th edition of the Sustainable Future programme, part of the Sustainable Development month, opens with a conference by Ian Goldin, a South African economist, on the theme "Systemic Change in the 21st Century: Impacts and Role of Biodiversity".

21 Issue of EUR 500 million exchangeable bonds, linked to the common shares of EDP, and USD 950 million issue of exchangeable bonds, linked to the common shares of Banco Bradesco.

27 Following its downward revision of the long and short term ratings of the Portuguese Republic from A+/A-1 to A-/A-2, with negative outlook, Standard & Poor's rating agency reviewed the ratings of Portuguese banks. As a consequence Standard & Poor's lowers Banco Espírito Santo's long and short-term ratings from A to A- and from A-2 to A-1, respectively, with negative outlook.

MAY

3 BES Group reports first quarter 2010 results. Net income reaches EUR 119.1 million, up 17.6% year-on-year and corresponds to return on equity of 8.1%.

JUNE

2 Moody's rating agency reaffirms BES's Bank Financial Strength Rating (BFSR) at C -, maintaining the negative outlook.

17 Banco Espírito Santo and the Institute for Nature and Biodiversity Conservation (ICNB) launch the first conference of the Green Future Cycle, in which the invited speaker is Mr. Pavan Sukdhev, an economist.

30 The third edition of the BES Biodiversity Prize awards the year's prize to Francisco José Petrucci Guterres da Fonseca for his project 'Conservation of the Wolf and the Wolf's Ecosystem'.

JULY

5 BES informs the market that Silchester International Investors LLP, an investment firm based in the United Kingdom, holds a qualified stake in BES of 3.01%.

6 Banco Espírito Santo opens BES Cabo Verde (BESCV), a universal service bank incorporated under Cape Verdean law, with an initial share capital of EUR 13 million. The new bank's object is to strengthen and expand abroad Cape Verde's stock market in neighbouring West African countries.

14 Following the two-notch downgrade, to A1, of the Portuguese government's sovereign debt, Moody's rating agency announces the downgrade of Banco Espírito Santo's long term debt and deposits rating to A2/Prime-1 from A1/Prime-1, with negative outlook. This rating action concludes the review for possible downgrade for eight banks that were placed on review on May 5th, 2010.

21 Following a review of the ratings of Portuguese banks, Fitch Ratings downgrades Banco Espírito Santo from A+ to A, with negative outlook.

26 BES Group reports first half 2010 results. Net income totals EUR 282.2 million, a year-on-year increase of 14.6% and annualised return on equity (ROE) of 9.6%.

26 BES África, S.G.P.S., S.A. signs a memorandum of understanding for the acquisition of a 25.1% stake in Moza Banco, S.A., a bank incorporated in Mozambican in June 2008.

AUGUST

6 Disclosure of the results of the stress tests on BES, using the methodology and assumptions of the stress tests conducted under the coordination of the Committee of European Banking Supervisors (CEBS) shows that Banco Espírito Santo meets the regulatory capital requirements.

6 ESAF - Espírito Santo Activos Financieros S.A. (ESAF Spain), through Espírito Santo Gestión, SGIIC, SA (ES Gestión) enters into an agreement to fully acquire Gespastor SGIIC, S.A., a fund management firm, for the sum of EUR 25.75 million.

9 Banco Espírito Santo signs a memorandum of understanding with Banco do Brasil and Banco Bradesco for a common strategy in Africa, to be deployed through BES África, BES Group's holding firm for stakes in African financial institutions.

SEPTEMBER

1 BES participates in the Nomura Financials conference, in London.

14 BES participates in the KBW Financials conference, in London.

16 BES participates in the BPI Iberian Large Caps conference, in Lisbon.

OCTOBER

5 The Mexican regulator, Comisión Nacional Bancaria y de Valores, authorises Banco Espírito Santo and BES Investimento to open a joint representative office in Mexico, which hosts for the first time a Portuguese financial institution.

25 The first prize of the 6th edition of the BES National Awards for Innovation is awarded to the project "Drops in Lotus", led by João Mano, a researcher from Minho University.

26 BES África, SGPS enters into an agreement to acquire a 25.1% direct stake in Moza Banco for the amount of EUR 7.1 million and to simultaneously subscribe to this bank's share capital increase, for a total investment of ca. EUR 8.1 million. This acquisition was closed in January 2011.

NOVEMBER

2 BES Group reports third quarter 2010 results. Net income for the first nine months of 2009 reached EUR 405.4 million, a year-on-year increase of 12.4%, implying an annualised ROE of 9.1%. The international business contributes with 41% to consolidated net income.

8 Following a review of Portuguese Banks' ratings, Fitch Ratings agency downgrades Banco Espírito Santo from A/Neg/F1 to BBB+/Neg/F2. Banco Espírito Santo considers that there is no valid justification for a three notches downgrade in less than four months and as a result the Board of Directors decides to terminate the contract with Fitch Ratings.

24 BES Investimento is authorised to acquire a 50.1% stake in Execution Holdings Limited, a London Based investment banking and international brokerage group with headquarters in London.

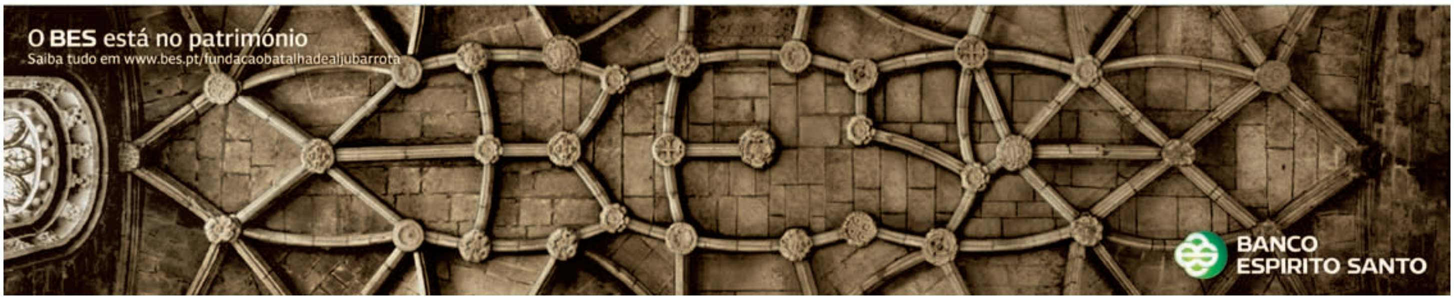
DECEMBER

3 BES informs the market that Silchester International Investors LLP increased its qualified stake in Banco Espírito Santo to 5.02%.

23 ESAF - Espírito Santo Activos Financieros, a BES subsidiary in Spain, completes the acquisition, through Espírito Santo Gestión, SGIIC, of the entire share capital of Banco Pastor's fund management firm, Gespastor SGIIC.

30 In a public offering of Undated Deeply Subordinated Notes in Portugal that launched on November 8th, BES achieves an issued amount of EUR 320 million.

31 Net Profit for BES Group in 2010 totalled EUR 510.5 million, down 2.2% year-on-year, implying a return on equity of 8.6%.



BANCO ESPÍRITO SANTO

Best Trade Finance Bank in Portugal

For the fifth consecutive year, Banco Espírito Santo is rated by the international magazine Global Finance as the best bank in trade finance in Portugal.

This prize is a token of the international recognition of BES's performance in this important business area, in which it is domestic leader, with a market share of 27.1%.

In 2010 BES restructured its trade finance business with the support of marketing experts and a risk analysis team, in order to expand its international business.

2010 Enterprise and Organisation Citizenship Awards

In a joint survey conducted by PricewaterhouseCoppers and AESE (Christian Entrepreuners and Management Association), Banco Espírito Santo won praise for its sustainability work and was considered the domestic bank with the best performance in coordinating the social, environmental and economic dimensions of its activity.

Only Portuguese bank in the FTSE4Good

BES has since 2007 been the only Portuguese bank in the prestigious FTSE4Good Index Series, an achievement that confirms its status as a socially responsible institution.

Engagement Rating Portugal 2010

In 2010, BES ranked first among domestic financial institutions and second in the Iberian Peninsula, in a survey designed to assess how organisations engage with their stakeholders.

Carbon Disclosure Project

In 2010, BES once again scored above the average for the European financial sector, achieving 5th place in an international index ranking companies' practices with regard to climate change.

ACGE 2010 Index

Banco Espírito Santo won the 1st place, in the financial sector category, in Euronatura's 2010 Climate Change and Corporate Management index (ACGE index), which assesses companies' performance in the face of climate change in Portugal.

BANCO ESPÍRITO SANTO DE INVESTIMENTO

Best Investment Bank in Portugal

awarded for the third consecutive time by the World Finance magazine.

Best Investment Bank in Portugal

Euromoney Real Estate Awards 2010.

Best Bank for Debt Capital Markets in Portugal

Euromoney Real Estate Awards 2010.

Best Bank for M&A Advisory in Portugal

Euromoney Real Estate Awards 2010.

Best Bank for Equity Finance in Portugal

Euromoney Real Estate Awards 2010.

Banco Espírito Santo de Investimento was classified as world leader in financial advisory services to PFI/PPP projects, in Dealogic's 1H10 league tables.

BES ANGOLA

Best Banking Group in Angola 2010

awarded by the World Finance magazine for the third consecutive time.

Best Banking Group in Sub-Saharan Africa 2010

awarded by World Finance.

Best Trade Finance in Angola 2010

awarded by the Global Finance magazine.

Best Bank Award 2010

awarded for the third year running by the Global Finance magazine.

Best Bank in Angola 2010

awarded by Emea Finance, also for the third time.

Official Bank of the UNESCO Planet Ea

a distinction valid for 10 years.

BES Angola was the first Private Contributor to present the Angolan Development Model to the United Nations, together with Angola's Ministry for the Environment.

1.4. The BES Brand

The Banco Espírito Santo brand is one of the Group's main assets, and one that is at the core of the tangibilization of its relationship with the various stakeholders. Consistent brand recognition has been a decisive factor in the success of BES Group's strategy.

The main values associated to the brand are Permanence, Strength and Portugueseness. In consumers' perceptions, these values are associated with a presence of more than 140 years in financial services, and with a tradition of assigning a primary role to reliability as well as the trust of clients, employees and shareholders.

The values of the BES brand merge the past, the present and the future into a symbiotic relationship between clients and the BES Group within the territory of "financial knowledge".

Based on a dual dimension of corporate and client communications, the BES brand management model has over the years strengthened the brand relative to its peers in the Portuguese financial sector.

Over 140 years, the oldest Portuguese private bank has built an image of trust and reliability, which today makes BES one of the most familiar brands for Portuguese people.

Banco Espírito Santo ranked in first position in Interbrand's "Top 10 Brands Portugal 2011" survey, which makes it the most valuable brand within the companies composing the PSI20 index, valued at an estimated EUR 951 million. This achievement translates the Bank's very positive financial and commercial performance over the years as a result of management's focus on value creation for the clients, shareholders, and employees, as well as the consistent work developed over the last ten years at the level of both institutional and product communication. Interbrand's ranking assesses a brand's capacity to generate value, based on criteria such as relevance, consistency, commitment, presence and authenticity. The analysis covers all the brands of the companies included in the PSI-20, with published 2010 annual reports, with domestic and international presence.

The Other BES

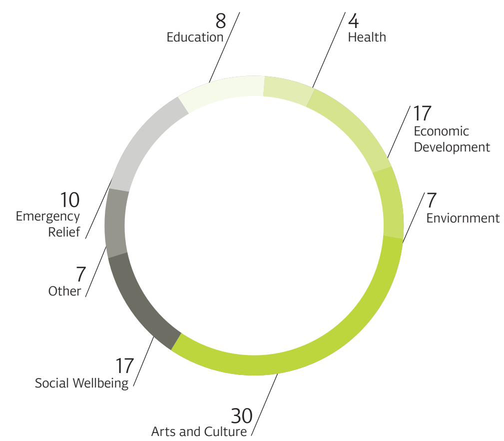
'The Other BES' identity was created for the purpose of communicating an integrated vision of BES's corporate social responsibility activities. This allows each area to stand out for itself while bringing together all the efforts undertaken by BES in its contribution to sustainable development.

In 2010, BES Group invested approximately EUR 5.4 million in the five strategic areas defined for engagement and investment in society, namely Science and Innovation, Financial Literacy and Education, Biodiversity and Climate Change, and Culture and Social Support.

According to the London Benchmarking Group's measurement model, BES Group allocated in 2010 approximately 18% of its cash donations to solidarity, 81% to direct investment in the community and 1% to commercial actions.

Total cash donations (corresponding to the bank's overall investment in society measured in accordance with the London Benchmarking Group's model) amounted for 1.6% of 2010 net profit. Under the patronage scheme alone, the Group provided EUR 4.8 million to support various important institutions.

Breakdown of donations*



* According to the LBG model

Architecture of BES' social responsibility program*

Cultural Patronage	Science and Innovation	Education and Financial Literacy	Solidarity	Biodiversity and Climate Changes
BES photo	BES inovação	No Banco da Escola	novo futuro	BES prémio Biodiversidade
BES revelação	prémio ciência na escola	Olimpíadas Portuguesas de Matemática	Acreditar	futuro sustentável
BES art Colecção Banco Espírito Santo		LeR+ Plano Nacional de Leitura	Banco de Bens Doados	
Fundação Ricardo do Espírito Santo Silva		Estágios de Verão BES UP	Associação Salvador	

* Detailed information about each of the initiatives above is available at www.bes.pt

Culture – to support the activity of institutions that promote the country's cultural progress and access to the Portuguese cultural heritage.

BES has established photography as the cultural pillar of its patronage policy. Since 2008 the BES Arte & Finança multipurpose centre, which regularly organises exhibitions and hosts the BESArt photo collection, has been a key channel for the implementation of this policy. The BESArt photo collection is formed by 800 works by 300 artists from all over the world.

In 2010, BES Arte & Finança organised 41 events and received an average of 2,870 visitors per week.

In photography, BES once again organised the BESphoto prize and exhibition, in partnership with the Berardo Collection Museum, and the BESrevelação prize and exhibition, in partnership with the Serralves Foundation. The sixth edition of BESphoto's exhibition received 45,000 visitors in 63 days.

In 2010, BES continued to provide support to museums and foundations to protect and promote Portuguese culture and heritage. The Ricardo Espírito Santo Silva Foundation, the Oriente Museum and the Aljubarrota Battle Foundation were some of these institutions.

Science and Innovation - to identify and promote innovative solutions, encouraging the rise of new businesses and new entrepreneurs.

The key pillars of BES's investment in science and innovation arte to promote a culture of innovation and to reinforce the links between research and business. To support innovation, BES promotes two initiatives: the BES National Awards for Innovation and the Science at School prize.

The sixth edition of the National Innovation Awards, held in 2010, received 196 valid applications, or 17 more than in 2009. The categories chosen for this year's competition were: Biotechnology and Agroindustry, Clean Tech, Industrial Technologies and Processes, Ocean Economy and Health Technologies. The top prize was awarded to the 'Drops in Lotus' project, developed by the Minho University, within the Industrial Technologies and Processes category.

The objective of the Science at School prize, an initiative of the Ilídio Pinho Foundation in which BES has participated for the last 6 years, is to give a symbolic contribution to the construction of a culture that emphasises innovation and scientific knowledge. This year's edition analysed 395 applications, and distinguished the eight Portuguese schools that submitted the most innovative interdisciplinary projects in the 2009-2010 school year.

Financial Literacy and Education - to be an active partner of society, supporting cultural, social and educational initiatives.

Banco Espírito Santo is determined to apply its financial know-how to sustainable development. In 2006, BES created a financial literacy programme called 'From Mathematics to Financial Literacy'. This programme comprises a range of initiatives designed to develop a taste for mathematics and thus educate a new generation of consumers of financial services who are more informed and therefore more capable of making decisions.

The **Portuguese Mathematics Olympiads** an initiative of the Portuguese Mathematics Society, has been supported by BES since 2006. This initiative, which also aims to promote a taste for mathematics, is addressed to students in the 2nd and 3rd cycles of basic education and in secondary education students. In 2010, approximately 30,000 students participated in the Olympiads.

At the School Bench is another initiative of the Portuguese Mathematics Society, which was joined by Banco Espírito Santo. It consists of learning sessions in which third and fourth grade students are taught the basics of finance in a playful but instructive manner. In 2010, 3,266 students participated in the **At the School Bench** initiative.

Solidarity – To help organisations that provide social support in areas as diverse as healthcare, and fighting hunger, poverty, and social exclusion.

Support to reconstruction in Madeira

In 2010 a severe storm caused serious personal and material damage in the autonomous region of Madeira. To help in the reconstruction of the islands, Banco Espírito Santo put together an aid plan consisting of the following initiatives:

- opening of a fund-raising account with an initial sum of EUR 124,000;
- a EUR 500,000 donation for families and citizens whose property was destroyed;
- the establishment of protocols with six municipalities to set up a subsidised credit line to help families, companies and entrepreneurs recover their destroyed property.

Support to social solidarity institutions and charities

By supporting social solidarity institutions, BES contributes to mitigate the most pressing social needs within the Portuguese society. This year, BES provided again financial aid to the following entities:

- Acreditar – an association of parents and friends of children with cancer;
- Novo Futuro – an association that shelters and supports children and young people deprived of a family environment;

- Salvador Association – an association that promotes the interests and rights of people with reduced mobility, and in particular physically handicapped persons;

- Donated Goods Bank – a project that distributes non-food products donated by companies and various entities to private social solidarity institutions and people in need.

Biodiversity and Climate Change - to contribute to the protection of biodiversity, and address climate change through financial activity and engagement with society.

Biodiversity

Banco Espírito Santo was the first Portuguese company to endorse the Business & Biodiversity Declaration of Commitment.

Marking the International Year of Biodiversity, BES and Expresso, a leading weekly Portuguese newspaper, organised the fourth edition of the Sustainable Future programme, which focused on the advantages of investing in biodiversity. More than 200 entrepreneurs, company managers, politicians, academics and environment experts participated in the 'Systemic Change in the 21st Century: Impacts and Role of Biodiversity' conference, in which Ian Goldin was the main speaker.

In 2010, BES reinforced its investment in biodiversity, taking several actions intended to raise awareness, educate and communicate the value of biodiversity:

- Exclusive sponsor of '2010 Bioevents', a joint initiative of the National History Museum, the Centre for Environmental Biology and the Universidade Nova de Lisboa aimed at spreading knowledge about the role of biodiversity in the sustainability of the planet. BES sponsored the exhibition 'Insects in Order' and 'Lynxes, Wolfs and Golden Eagles';

- Support to ICNB's 'Green Future' conferences cycle, which aimed to alert to the degradation of the ecosystems and the importance of a future in which biodiversity is preserved; the cycle of five conferences was held in the BES Arte & Finança centre and was attended by a specialist public of around 450 people;

- Creation of the BES Biodiversity chair, a joint initiative undertaken with the Foundation for Science and Technology and the Porto University. The purpose is to attract to Portugal top-level experts living abroad in order to develop emerging areas of knowledge;

- As a patron of the 'Lynx Programme', BES developed joint efforts under a partnership with the League for Nature Protection to preserve a Mediterranean corridor habitat suitable for the Iberian lynx and the Black vulture;

- Sponsor of the exhibition 'Amphibians: a paw in water, a paw on land', held at the Belém Tropical Garden, in Lisbon;

- Organisation of the third edition of the BES Biodiversity Prize, a joint initiative with the Centre for Research in Biodiversity and Genetic Resources (CIBIO). The year's prize was awarded to Francisco José Petrucci Guterres da Fonseca for his project 'Conservation of the Wolf and the Wolf's Ecosystem';

- Biodiversity protection, through investment in several biodiversity conservation projects:

  - partnership with Herdade da Poupa, which engages in the preservation of endangered species, reforestation, and the protection of the habitats of indigenous flora species;

  - partnership with Reserva da Faia Brava, one of the largest natural reserves in Portugal, spanning approximately 600 hectares in the Trás-os-Montes region.

Climate Change

BES has invested in the creation of financial products and services that contribute to the adaptation to and mitigation of climate change. To this end, the Bank also established a protocol with Évora University concerning the creation of a chair on renewable energies.

The chair will further research in the field of conversion and storage technology for solar thermal and thermoelectric renewable energy, and provide specialised training to young professionals on alternative and renewable energies.

Banco Espírito Santo Angola, Official Bank of the UNESCO Planet Earth 2010-2020

Banco Espírito Santo Angola (BESA) is a founder member of the Planet Earth National Committee (Angola), which was promoted by UNESCO to find mechanisms for environmental protection in Angola. The Committee's members include public and private sector organisations, corporations and not-for-profit outfits.

As a member of the committee, BESA contributed financially to the distribution of a thematic kit consisting of books and datasheets on sustainable development and environmental protection. The kit was distributed to school children in the provinces of Luanda, Huambo and Huíla. In addition, these children were also invited to visit the exhibition 'Save and Protect the Planet Earth'.

BES Cabo Verde, member of the National Committee of the Planet Earth Institute

In 2010, Banco Espírito Santo Cabo Verde became a member of the newly created National Committee of Planet Earth Cape Verde. The purpose of the committee is to promote sustainable development and the application of the Earth sciences in Society. The committee will bring together governmental entities, corporations and universities with the objective of expanding Planet Earth's intervention in the environment, biodiversity and geodiversity of Cape Verde. Its first initiative will be the creation of a Geopark in the Island of Fogo.

1.5. Corporate Bodies

The Board of Directors is responsible for exercising the broadest powers of management and representation of the company and for performing all acts as may be required and convenient for the pursuance of Banco Espirito Santo's activity. BES's Board of Directors consists of 27 members, of whom seven are qualified as independent non executive directors. The Board of Directors delegates the day-to-day running of the company to an Executive Committee consisting of 11 members.

Out the seven independent directors, three are members of the Audit Committee and three are members of the Corporate Governance Committee. The chairman of the Board of Directors is also qualified as independent.

The Board of Directors holds regular meetings at least once a quarter, extraordinary meetings are held whenever convened by the Chairman, two directors or the Audit Committee.

Pursuant to the powers conferred to it under the law and the company's bylaws, and in accordance with its Regulation (available at www.bes.pt/investidor and in Chapter II of the Corporate Governance Report), in 2010 the Board of Directors monitored, assessed and supervised the activity of the Company, in strict coordination with the Executive Committee and with no restraints.

It is the responsibility of the Board of Directors to define, follow and monitor the implementation of the Bank's key strategic guidelines and to promote the activities of specialist committees set up within the Board.

BES's non-executive directors exercise supervisory functions in the following committees:

- Audit Committee, consisting of three independent non-executive directors. The Report of the Audit Committee on the activities in 2010 may be found at the end of this report;

- Corporate Governance Committee, consisting of three independent non--executive directors.

Chapter II of the Corporate Governance Report contains detailed information about the composition, powers and duties of the Audit Committee and Corporate Governance Committee.

The Chairman of the Board of Directors may at any time ask the Chairman of the Executive Committee to clarify matters considered relevant for the exercise of his functions or to ensure that the other Board members are informed about such matters.

In 2010, BES's non-executive directors regularly attended the meetings of the Board of Directors, and they were provided with all information considered relevant for them to effectively monitor the Company's activities. The Chairman of the Executive Committee sent all convening notices and minutes of the meetings to the Chairman of the Board of Directors.

In its meetings in 2010, the Board of Directors discussed and passed resolutions on the following major issues:

• Approval of BES Group's results for 2009 and first three, six and nine months of 2010;

• Approval of the proposed allocation of the 2009 results;

• Approval of the proposals to be submitted to the Annual General Meeting in April 2010 concerning: (i) the Management Report, the Corporate Governance Report and the remaining consolidated and individual reporting documents relative to fiscal year 2009 accounts; (ii) the remuneration policy of BES's senior officers and the creation of a variable remuneration plan; (iii) partial amendment of the Company's bylaws;

• Appointment by co-optation of Board members: (i) Bruno de Laage de Meux, to replace Jean-Fréderic de Leusse; (ii) Jean- Yves Hocher, to replace Bernard Delas; (iii) Marc Olivier Tristan Oppenheim, to replace Bernard Mary, and (iv) Antonio Bornia, to replace Luíz Carlo Trabuco Cappi;

• Creation of a Corporate Governance Committee.

Given BES's status as a publicly traded company, its corporate bodies are elected at the Annual General Meeting and have their seat in the Bank's head-office. Their 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)
Bruno de Laage de Meux (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
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
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
Jean-Yves Hocher
Antônio Bornia
Marc Olivier Tristan Oppenheim

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

Board of the 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 (Chairman)
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
Deputy Certified Statutory Auditor, Jean-Éric Gaign (ROC)

Company Secretary

Eugénio Fernando Quintais Lopes
Pedro Moreira de Almeida Queiroz de Barros (Deputy Secretary)

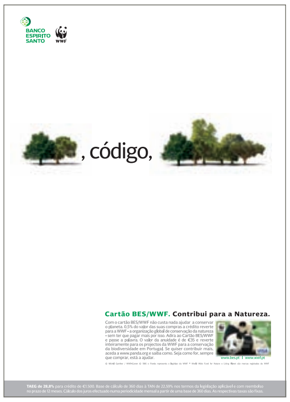

POUPANÇA BES júnior
DE PEQUENINO SE ENCHE O PORQUINHO


seguro BES dia-a-dia
O SEGURO QUE COBRE ATÉ ACIDENTES PARVOS


PA:GO
BES EXPRESS BILL
QUEM DIZ QUE PAGA, PAGA.
QUEM ESPERA RECEBER, RECEBE.
BANCO ESPIRITO SANTO


Residentes no Estrangeiro
BES doce BES
Nunca foi tão bom voltar a casa
Saiba tudo aqui


EU TENHO UMA CERTEZA
O MEU DINHEIRO VAI CONTINUAR A RENDER AQUI
É GARANTIDO
Conta Rendimento CR
Depósito a prazo a 3 anos com taxas crescentes
• TANB média de 2,75%
• 3,75% TANB no 3º ano
Penalização de juros em caso de mobilização fora da data anual de pagamento.
Saiba tudo aqui.


, código,
Cartão BES/WWF. Contribui para a Natureza.


Poupar é enviar dinheiro para o futuro
E ter a certeza que cresce até 3,25% em 2 anos
2,75% TANB média
BES CRESCENTE


Junte aqui a família
Vantagem Família BES
CONHEÇA UMA FAMÍLIA NUMEROSA DE VANTAGENS
Saiba tudo aqui


"360° à volta da minha conta"
Chef de cozinha e Cliente do BES 360°
Conta BES 360°
BANCO ESPIRITO SANTO


Para quem só gosta de ganhar
4,50%
TANB último semestre
3,50% TANB média em 3 anos
A partir de €1.000


BES JOVEM
O MEU DINHEIRO É DA MINHA CONTA
Saiba tudo aqui


Crédito Individual BES
Se precisa de Crédito, fale connosco
luz verde para tirar os projectos da gaveta

1.6. Strategy

Banco Espírito Santo Group's main pillar for development and strategic differentiation lies on service excellence and a permanent focus on the needs of each client, whether individual, corporate or institutional.

With its differentiated value propositions, BES Group offers a broad range of financial products and services that meet the specific needs of its clients.

A solid and stable management has enabled the development of a consistent strategy oriented towards a long-term vision and based on strategic partnerships, long-standing relationships with its various stakeholders and a core group of reference shareholders since the Bank's privatisation in 1991.

These are the Group's main strategic guidelines:

- **Strengthening of its domestic positioning** by the acquisition of new clients (individual and corporate) and the diversified offering of innovative products and services, supported by cross-selling and cross-segment initiatives, such as bancassurance and assurfinance (in partnership with Companhia de Seguros Tranquilidade);

- **Expansion of its international activities** by stronger positioning in the strategic triangle (Iberia, Brazil and Africa) and by the expansion into new markets considered strategic and offering business opportunities;

- **Support to companies in the phase of international expansion**, through (i) partnerships with local entities; (ii) trade missions with entrepreneurs to countries such as Angola, Morocco, Algeria or the United Arab Emirates; (iii) recognised know-how in trade finance, a business area in which the Group has consistently been market leader in Portugal, with a share of 27.2% in 2010; and in 2010 (i) dedicated teams and structures specialising in supporting companies in the process of internationalisation (including the International Premium Unit, which has no equal in the Portuguese banking sector);

- **Improved operating efficiency**, with an efficiency ratio below 50%;

- **Development of long-term strategic partnerships** , a fundamental link in BES Group's strategy. BES Group has a strategic joint venture with Crédit Agricole, one of its main shareholders, under which it has established cross-selling platforms, namely in the area of bancassurance. BES also maintains a strategic joint venture with Banco Bradesco, one of Brazil's main banks and also a BES shareholder. Banco Bradesco holds a 20% stake in BES Investimento Brasil, BES Group's investment banking unit in Brazil, and supports the bank's activity by sharing its knowledge of the Brazilian market – a key market in the Group's strategy for international expansion;

- **Development of a sustainability strategy** along the following dimensions: governance and ethics; corporate identity; innovation and entrepreneurship; financial inclusiveness; biodiversity and climate change; responsible citizenship. These areas have been defined on the basis of stakeholder consultation, the Group's vision and activities and the trends for the financial sector.

International Activity

International orientation was a key feature in the development of BES Group's activity throughout its history, and the future development of this orientation is a key aspect of its growth strategy.

The historic links with Africa and South America, notably Brazil, the internationalisation of Portuguese companies, the growing interdependence of economies and the large communities of Portuguese nationals established across several continents have provided the basis for the international expansion of BES Group.

The know-how developed in the domestic market in corporate banking, investment banking and private banking allows the Group to export its skills and expertise to serve both local customers and those who do cross--border business, namely by supporting the internationalisation of Portuguese companies. In this regard, particular emphasis was placed on facilitating access to strategic markets and those where there are business opportunities and where the Group can provide support, either through its direct presence or through its partnerships with local banks.

2010 – Expansion and consolidation of the international strategy

2010 was marked by the expansion of international activities to new geographies and by the consolidation of the strategic bet on the triangle formed by Iberia, Brazil and Africa.

Reinforcement of the strategic triangle

In August, the Group announced its intent to buy a 25.1% stake in Moza Banco, a Mozambican bank. The transaction was concluded in January 2011. Also in August, Banco Espírito Santo, Banco do Brasil and Bradesco signed a memorandum of understanding for a common development strategy in the African continent.

This partnership aims to strengthen the Group's international strategy, which is focused on the Iberia – Brazil – Africa triangle, and to achieve synergies arising from the increasing presence of Portuguese and Brazilian companies in Africa while leveraging Portugal and Brazil's complementary approach to the African market.

New geographies, new opportunities

In 2010, BES Group entered the Libyan market, through Aman Bank, and also the Indian market, through the acquisition of a 50.1% stake in Execution Noble, a London-based leading investment banking and securities firm focusing on large and mid cap pan-European companies.

Banco Espírito Santo was also authorised by the relevant authorities to open a representative office in Mexico and in October was formally authorised by local authorities to open a branch in Venezuela, where it had already been operating for the last 17 years through a representative office.

In Algeria, after the Bank of Portugal has authorised the set up of a leasing company, the Group is now awaiting the required authorisation from the Algerian regulatory authorities.

The opening of a branch in Hong Kong, which has already been authorised by the Bank of Portugal, is awaiting the approval of local authorities.

Banco Espírito Santo Group's activity abroad

United States

The Group develops international private banking activities in the American continent from Miami-based Espírito Santo Bank, mostly serving Portuguese and Latin American comunities. BES's New York branch centres its activity in wholesale banking, mainly in the United States and Brazil. BES Investimento's New York branch distributes project finance and other structured finance products in core markets, capitalising on its presence in Brazil, strong positioning in Iberian capital markets and its relationship with reference clients in project finance. BES Group's presence in New York gives it privileged access to institutional investors in one of the world's main financial centres.

Cape Verde

Activities in Cape Verde are concentrated on corporate banking, tourism, foreign trade and public/private sector investment in infrastructure (ports, roads, electricity and water), targeting Portuguese companies with business relations with Cape Verde. In affluent banking the main market is non-resident clients, namely the Cape Verdean diaspora.

Brazil

Brazil is one of Latin America's fastest growing economies and its strong historical links and cultural affinities with Portugal make it a natural partner of our country.

BES Group is present in Brazil through BES Investimento do Brasil, in which Banco Bradesco holds a 20% stake. BES Investimento do Brasil focuses its activity on capital markets, risk management, proprietary trading, project finance, distribution of fixed-income products, private equity and corporate finance.

Asset management in Brazil is developed by BESAF - BES Activos Financeiros, which recently restructured its marketing strategy, emphasising the role of external distributors. The Group also engages in securities brokerage in Brazil, through BES Securities.

Angola

In an economy with great growth potential that is Portugal's fourth largest trading partner, BES Group develops its activity through BES Angola (BESA), a bank incorporated under Angolan law that provides a global service to individual and corporate clients.

BES Angola operates through a network of 31 branches of which 21 are in Luanda and sub-branches distributed by six provinces, and a private and affluent banking centre in Luanda.

In corporate banking, where BESA operates from two corporate centres in Luanda, activities are oriented towards establishing commercial partnerships for mutual added value with large and medium sized companies operating in Angola, by financing the investment projects or cash needs of these companies and providing them with technical and legal support and by backing up foreign companies and entrepreneurs expanding their activity into Angola, namely from Portugal, Spain, Brazil and Germany.

Investment banking activities are focused on the identification of business opportunities in project and corporate finance and the arrangement of funding solutions.

In asset management, BES Angola and ESAF jointly set up in 2008 the first fund management firm in Angola, BESAACTIF, Sociedade Gestora de Fundos de Investimento, which aims to offer pioneering financial solutions to its clients in the local market. Also in 2008, the firm obtained the authorisation to launch a closed-end real estate fund with the duration of five years, whose reception by investors exceeded expectations.

BESA has been positioned itself as a model bank in the Angolan market, where it stands out for its very high profitability and efficiency levels as it is actively engaged in society by adopting a sustainability policy and contributing to Angola's reconstruction.

LUANDA

BES Group develops international operations through: **Subsidiaries and Associated Companies:** BES Angola, BES Oriente (Macao), BES Vénétie (France), ES Bank (USA), ES plc (Ireland), BES Cabo Verde, Aman Bank (Libya), ES Investment (Angola, Brazil, China, Spain, USA, Índia, Poland, United Kingdom), Moza Banco (Mozambique). **International Branches:** Venezuela, Spain, New York, London, Cape Verde, Nassau and Cayman Islands. **Off-shore Branch** in Madeira. **Representative Offices:** Toronto, São Paulo, Lausanne, Cologne, Milan, Johannesburg, Shanghai and México. **Remittance Offices:** Newark (USA)

United Kingdom

In London, Europe's main financial centre, BES operates through a branch focused in wholesale banking, namely syndicated credit transactions, leveraged finance and structured commodities trade finance, in close cooperation with BES Investimento and in project finance operations. Banco Espírito Santo de Investimento acquired a 50.1% stake in Execution Noble, a London-based leading investment banking and securities firm focusing on brokerage and trading, research, mergers & acquisitions, corporate finance, corporate broking and the equity capital markets. This acquisition strengthened the Group's presence in Europe's largest financial centre and facilitated access to emerging markets such as China and India.

Poland

The Group is present in Poland since 2005, the year of the foundation of Investimento Concordia Espírito Santo Investment, a BES subsidiary that specialises in advisory services in mergers and acquisitions. In 2008 BES Investimento expanded its activities in the country, opening a branch that started providing brokerage services in the Warsaw Stock Exchange.

France

BES develops its activity in France through Banque Espírito Santo et de la Vénétie, in which it has a 42.69% stake. The bank focuses its activity on corporate banking and the provision of financial services to Portuguese residents in France who are clients of BES Portugal.

Spain

In Spain BES Group operates through a network of 25 branches and eight specialised corporate centres, focusing its activity on corporate banking, private banking and affluent banking. The Group also develops investment banking activities in Spain, ranking in third position in the Spanish brokerage market and holding a leading position in the area of mergers and acquisitions. Taking advantage of the geographical proximity to Spain, the Group has always had an Iberian vision of the market, facilitating and promoting exports and direct investment by Portuguese companies in Spain, and by Spanish companies in Portugal.

China

BES Oriente ensures a presence in Macao that is primarily centred on supporting BES clients with business activities in the region, while seeking business opportunities leveraged by the expressed intent of the People's Republic of China to consider Macao as a platform for economic cooperation with Portuguese speaking countries.

Libya

BES Group operates in Libya through a 40% stake in Aman Bank, where it has management control. With its presence in Libya, the Group aims to facilitate access to the Northern African markets and provide support to its clients in that country.

Aman Bank, a commercial bank incorporated in 2003, offers financial services to its individual and corporate clients through a network of 23 branches and 7 mobile units – the 'Aman Bank on wheels' network allows individual clients to perform all banking operations in real time. With a strong positioning in the area of trade finance, Aman Bank is the reference bank for international companies doing business in Libya.

Aman Bank is market leader in ATMs, POS, and credit cards, it is the only bank that issues MasterCard and American Express cards in Libya, and one of the three banks that issue Visa cards in the country, with a market share of 90%.

*Network of 731 Branches
22 Private Banking Centres
24 Corporates Centres

1.7. The BES Shares – Value Creation

STOCK EXCHANGE:	NYSE Euronext
ISIN:	PTBES0AM0007
BLOOMBERG CODE:	BES PL
REUTERS CODE:	BES.LS
NUMBER OF SHARES:	1,166,666,666
NOMINAL VALUE:	EUR 3 per share
SHARE CAPITAL:	EUR 3,499,999,998

On December 31st, 2010 the share capital of Banco Espírito Santo was EUR 3.5 billion, represented by 1,166,666,666 ordinary shares with a nominal value of EUR 3 each, listed on the NYSE Euronext.

Main Stockmarket Indicators

			31.12.09	31.12.10	Change
Share data					
01. Number of Shares Outstanding	(thousand)		1,166,667	1,166,667	-
02. Weighted Average of Shares Outstanding (1)	(thousand)		1,000,000	1,166,667	16.7%
03. Last Closing Price	(Eur)		4.57	2.88	-37.0%
04. Market Capitalisation	(Eur mn)	(01x03)	5,332	3,360	-37.0%
Consolidated Financial Data (Year-End)					
05. Equity attributable to Shareholders (2)	(Eur mn)		6,655	6,985	4.9%
06. Equity attributable to Ordinary Shares (3)	(Eur mn)		6,055	6,385	5.4%
07. Net Income	(Eur mn)		522.1	510.5	-2.2%
08. Net Income attributable to Ordinary Shares	(Eur mn)		488.6	477.0	-2.4%
09. Gross Dividend of Ordinary Shares	(Eur mn)		163.3	147.0(4)	-10.0%
10. Pay Out Ratio	(%)	(09/07)	31.3	28.8	-2.5p.p.
Per Share Data					
11. Book Value per Share	(Eur)	(06/01)	5.19	5.47	
12. Earnings per Share	(Eur)	(08/01)	0.42	0.41	
13. Gross Dividend per Share	(Eur)	(09/01)	0.140	0.126	
Price as a Multiple of					
14. Book Value	PBV	(03/11)	0.88	0.53	15.
Net Income	PER	(03/12)	10.88	7.02	-
Price Return on					
16. Net Income	(%)	(12/03)	9.19	14.24	-
17. Dividend (Dividend Yield)	(%)	(13/03)	3.06	4.38	-

(1) Average number of ordinary shares weighted by permanence time
(2) Capital+Pref Shares+Share Premium-Own Shares+Other Reserves and Retained Earnings+Revaluation Reserves+Net Income for the Year
(3) Equity - Pref Shares
(4) Dividend of 0.126 euro per share to be proposed to the AGM on March 31, 2011

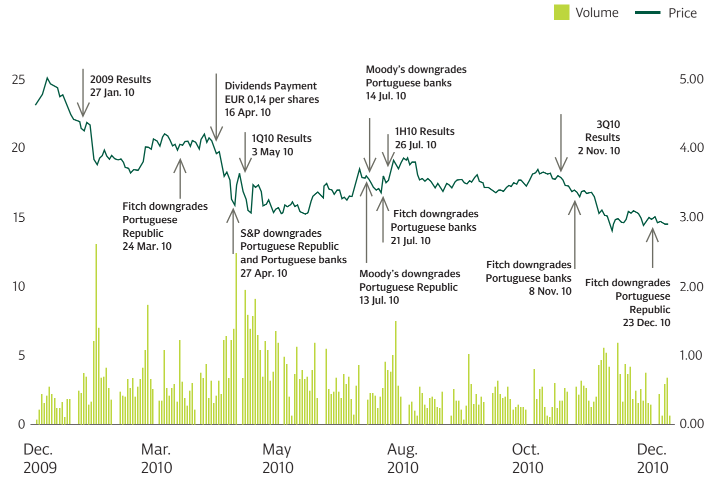
BES Shares performance

Uncertainty in Europe in 2010, which originated in Greece and later spread to Ireland, generated a climate of instability in financial markets that raised investors' risk aversion significantly. Concerns about peripheral Euro Area member states' fiscal position and high indebtedness led to increasing volatility in equity markets and significant widening of government and financial institutions spreads in debt markets.

Investor concerns with the Portuguese public accounts grew substantially from April onwards following Standard & Poor's two-notch downgrade (from A+ to A-) of the Republic of Portugal. As a result, the ratings of Portuguese financial institutions were also downgraded with a direct impact on the availability of short-term funding to local banks. Risk aversion mounted gradually throughout the year as international rating agencies downgraded further both the Republic and financial institutions.

Against this backdrop, the PSI-20 lost 10.3% in 2010, the PSI Financials fell 29.9% and the Stoxx 600 Banks, which tracks the performance of 53 major European banks, dropped 11.6%. The BES stock shed 37.0% in 2010, roughly in line with its Portuguese and Spanish peers. Closing prices for the BES stock in 2010 hit a low of EUR 2.790 and a high of EUR 4.988 and the year-end price was EUR 2.88.

BES share price performance in 2010



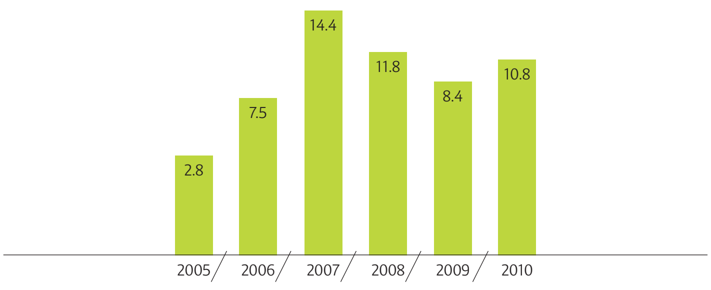
At the end of 2010, BES had a market capitalisation of EUR 3.36 billion, the largest one amongst Portuguese banks. The price-earnings and price book value ratios were 7.02 and 0.53, which compares with 10.88 and 0.88, respectively, at the end of 2009.

Liquidity

The average number of BES shares traded per day in 2010 was 3.1 million, up 48.4% from 2009, when an average of 2.1 million shares were traded daily. The liquidity of the BES shares in 2010 as measured by their average daily trading volume increased by 28.9%, from EUR 8.4 million in 2009 to EUR 10.8 million.

Average daily trading volume

(euro million)



BES share in stock market indices

BES shares are listed on the NYSE Euronext and are part of 36 indices (see table for the most significant).

Index

	Bloomberg ticker	% Weight in 2010
Euronext Lisbon PSI Financials	PSIFIN	39.640
PSI-20	PSI20	6.469
PSI Geral	BVLX	5.163
Bloomberg Europe Banks & Financial Services	BEBANKS	0.391
S&P Euro Financials	SEUFINL	0.357
S&P Europe 350 Banks	SEBANKX	0.294
WT International Midcap Dividend	DIMIV	0.273
Bloomberg European Financials	BEFINC	0.273
STOXX Europe 600 Optimised Banks	SXO7P	0.230
Euronext-100	N100	0.206
STOXX Europe 600 Banks	SX7P	0.190
S&P Europe 350 Financials	SPEURO40	0.169
S&P Euro	SPEU	0.079
EURO STOXX	SXXE	0.060
Bloomberg European 500 (traded in Euro)	BE500E	0.059
Bloomberg European 500	BE500	0.059
S&P Euro Plus	SPEP	0.055
S&P Global 1200 Financials	SGFS	0.050
S&P Europe 350	SPEURO	0.036
STOXX Europe 600	SXXP	0.030
FTSE4GOOD Europe	4GEU	0.021
S&P Global 1200	SPGLOB	0.010
FTSE4GOOD Global	4GGL	0.009

Sources: Bloomberg, FTSE, Stoxx, Standard & Poor's

BES has since September 2007 been included in the FTSE4Good Index Series, which has strengthened its status as a socially responsible institution. As the sole Portuguese bank that is part of this index, BES has independently won recognition for its management model based on sustainability criteria. The FTSE4Good was launched in 2001 and consists of a set of comparable, tradable indices for social responsibility-minded investors.

Shareholder Structure

Banco Espírito Santo has had a stable shareholder structure since 1992. Its main shareholders, Espírito Santo Financial Group and Credit Agricole, hold jointly, through Bespar, 40% of the share capital. In addition, Crédit Agricole has a 10.81% direct stake in the Bank. Banco Bradesco, through Bradport, and the Portugal Telecom Group, own 6.05% and 2.62%, respectively, of BES's share capital. The free float is currently 40.52%.

In 2010 Silchester International Investors LLP raised its stake in BES, which at year end had reached 5.41% (3.01% in June), corresponding to a total of 63.2 million shares. Silchester International Investors LLP is a UK based investment management firm. Silchester invests client assets in publicly traded non-US equity securities. It has more than EUR 15 billion of assets under management primarily from US institutional clients.

At 31 December 2010, BES' main shareholders were :

Main Shareholders

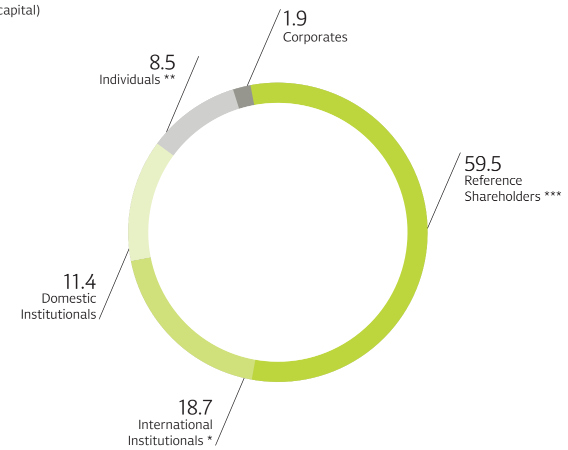
	% Ordinary Shares	
	Dec. 09	Dec. 10
BESPAR — Sociedade Gestora de Participações Sociais, S.A.	40.00	0.00
Crédit Agricole, S.A.A	10.81	0.00
Bradport, SGPS, S.A.(1)	6.05	0.00
Silchester International investors Limited	-	5.41
Portugal Telecom	2.62(2)	2.62

(1) Company incorporated under Portuguese laws, wholly owned by Banco Bradesco (Brazil)
(2) In 2009, the stake was held by Previsão, SGPS, S.A., with the voting rights being attributable to Portugal Telecom

As of December 31st, 2010, the Bank had 25,600 registered shareholders and the following shareholder structure:

Shareholder Structure as of December 31st, 2010

(% of share capital)



(*) Refers to stakes held by asset management companies (e.g. mutual funds, pension funds discretionary management custodian banks, among other).
(**) Includes individual investors and entrepreneurs
(***) Reference shareholders include: BESPAR, Crédit Agricole, Bradesco (through Bradport), Portugal Telecom

With international investors reducing their exposure to Portugal, the weight of institutional investors in BES's capital structure slightly declined, from 32.9% in 2009 to 30.0% in 2010.

Communication with the market

BES regularly informs the market on results, events or any other facts about the BES Group that are relevant to the financial community or the public at large. The Investor Relations Department is responsible for promoting regular and effective communications with the market, namely by issuing releases posted on BES's and CMVM's websites, holding meetings with shareholders, potential investors and analysts or participating in international investor conferences. The department is also responsible for coordinating the information provided to rating agencies and for BES' relationship with CMVM. Upon the release of quarterly, half-yearly and annual results, conference calls are held for investors and analysts who are thus regularly given the opportunity to ask questions to the Chairman of the Executive Committee and the Chief Financial Officer.*

* For further information see point III.16 in the Corporate Governance Report.

Despite the difficult economic environment, the BES Group continued in 2010 to actively contact institutional investors, whether in meetings, conferences organised by investment banks or other initiatives that nurtured markets' interest in the Bank as well as its profile.

During the year BES organised roadshows in the main European and North-American financial centres and held more than 300 meetings with investors. In addition, the Bank also participated in the following international conferences:

- HSBC Southern European Financials Conference, in London;
- Morgan Stanley European Financials Conference, in London;
- Santander Portuguese Conference, in Lisbon;
- Portuguese Day, promoted by BES Investimento and Euronext, in New York;
- Nomura Financial Services Conference, in London;
- BPI VII Iberian Large Caps Conference, in Lisbon;
- KBW European Financials Conference, in London;
- Iberian Corporate Access Days, promoted by JP Morgan in New York;
- Citi Financials Speed Dating, in London.

Dividends

The dividend proposed by the board of directors to the annual general meeting follows the criterion of a balanced relationship between financial strength (higher solvency ratios through retained earnings) and adequate returns to shareholders.

The board of directors will submit for approval by the annual general meeting a dividend per share of EUR 0.126, implying a dividend yield of 4.38% on the basis of the year-end closing price and a pay-out ratio of 28.8%.

Research on BES

A total of 14 analysts covered BES shares throughout the year 2010. The average price target based on reports published within the last six months prior to the publication of this annual report was 3.99 euros per share, with 55% of "Buy" recommendations, 45% "Hold" recommendations and zero "Sell" recommendations.

Firm	Report date	Recommendation	Price Target
HSBC	2/15/11	Buy	4.50
BBVA	2/9/11	Buy	4.10
Caixa BI	2/1/11	Buy	4.00
Nomura	1/31/11	Hold	4.80
Millennium	1/31/11	Buy	4.50
BPI	1/31/11	Buy	3.15
JP Morgan	1/31/11	Hold	3.60
KBW	1/31/11	Hold	3.20
UBS	1/27/11	Buy	5.30
Macquarie	12/16/10	Hold	3.45
Deutsche Bank	11/22/10	Hold	3.30
Average			**3.99**

1.8. Stakeholder engagement

BES has defined and prioritised key groups of stakeholders according to the impact they have on its own activity, and the impact BES has on theirs. For each group BES has developed consultation mechanisms that continuously identify expectations and relevant issues to manage and communicate.

Stakeholder Dialogue Channels

Employees

- BES Group Annual Congress
- Human Resources Portal
- Intranet / BESweb
- BES@actual web magazine
- Itinerant Executive Committees
- Workers Committee
- Trade Union Secretariat
- Information and Consultation Procedure
- Training
- Performance Assessment
- Internal Customer Satisfaction Surveys
- Motivation Surveys
- Annual Employee Survey on the Group's Sustainability Practices
- Outdoor Actions
- E-mail box of BES' Chairman of the Executive Committee

Investors/ Shareholders

- Roadshows
- Conference Calls
- Participation in international conferences
- Regular meetings
- Strategy Day
- Releases to the market
- General Meeting of Shareholders
- Conference Call - Quarterly Results
- Valor BES newsletter
- Shareholders and Investors' dedicated mailbox
- Investor Relations Website

Customers

- Itinerant Executive Committees
- Branch network, Corporate Centres, Regional Divisions, Private Banking Centres, Service Quality Department
- Internet banking
- Complaint management system
- Contact Centre
- Communication and Advertising Campaigns
- Customer Satisfaction Surveys
- Annual Customer Survey on the Group's Sustain ability Practices

Regulatory Authorities

- Obligatory reporting and voluntary communications
- Regular meetings
- Press releases

Media

- Regular meetings with the Executive Committee
- Press Conferences
- BES Press Trip
- Reply to daily information requests

Suppliers

- Regular meetings and contacts
- Suppliers Portal
- Annual Supplier Survey on Sustainability Practices

NGOs

- Annual meeting with environmental NGOs
- Reply to daily information requests

1.8.1. Human Resources

In 2010, Banco Espírito Santo Group pursued its policy of upgrading its human resources, an asset in which it permanently invests. The commitment to its employees materialises in the development of their skills, their training, and the fulfilment of their expectations in alignment with the company's goals.

The Human Resources Committee is responsible for setting policies and practices for the Group's various locations and companies. One of the committee's challenges is to adapt to local cultures and communities the very policies and practices that safeguard the Bank's general principles and the pillars for human capital development, thereby promoting a healthy, balanced, competitive and result-driven working environment.

At 31 December 2010, the BES Group had 9,858 employees spread over four continents. Of these, 7,584 (77%) worked in Portugal and 2,274 (23%) abroad.

Human Resources Geographic Distribution

Country	Dec. 2009	Dec. 2010
Portugal	7,388	7,584
Rest of Europe	718	946
Spain	596	596
United Kingdom	57	277
Other	63	73
Africa	427	923
South America	185	202
North America	167	182
Asia	19	21
Total	**8,904**	**9,858**

The expansion of international activities explains the rising number of employees abroad, namely after the acquisition of 40% in Aman Bank (Libya) and 50.1% in Execution Noble (United Kingdom), which added 438 and 211 employees, respectively.

Human Capital

Gender		Men/55%		Women/45%		
Age group	<30	17.8%	30-50	66.0%	>50	16.2%
Staff rotation rate		11.8%				
Hours of training		321.762				
Absenteeism rate		3.56%				

The Group continues to make an effort to rejuvenate and qualify its staff as it works hard to build the loyalty of its junior, high-potential employees. In this regard, career management is particularly relevant as a decisive strategic tool for motivating and retaining human resources.

On the one hand, the individual appraisal system that is aligned with the goals of the business measures individual performance. On the other hand, the objectives and incentives scheme, which appraises the performance of the various units and employees against the goals set for each department, measures teamwork performance. In combination, these factors are decisive for the success of the business.

The performance evaluation process also gauges employee satisfaction with their role and, whenever necessary, requalifies the employees that are willing and able to adapt to new roles. In 2010, 83 employees moved to new roles, 834 were promoted on merit and 197 on seniority, accounting in all for 12% of the Group's total.

The compensation scheme includes variable remuneration that is directly related to performance appraisal and results achieved by employees, although it also depends on the BES Group's overall financial results and the team's results.

Training and Career Management

The Group has a broad and innovative training programme that covers the needs of all employees and has two components:

- Generic training for all employees;

- Specific training, structured and planned according to each target group, that is, the employee's business area, role, individual profile or as required for special projects, such as the launch of a new product.

The training methods used range from e-learning to in-class sessions, to coaching and on-the-job training. In 2010, the average number of training hours per employee was 38.3, up 43% from 2009. Major initiatives were:

- School Branches – on-the-job training with 2,179 participants and over 15,000 hours of training; this training is provided at BES branches that are prepared to welcome and train employees; in this learning method, trainees are in direct contact with clients to learn the best sales techniques;

- BES Attitude Plan – 4,467 participants and over 30,000 hours of training; this plan is an in-class behavioural training programme that focuses on improving customer service and developing client relationships; it is directed at regional and branch managers responsible for helping sales teams implement learnt concepts;

- New home mortgage workflow – 2,828 participants and approximately 10,000 hours of training.

The **BES University** offers all employees the possibility to apply for university degrees, post-graduate courses and seminars and thus benefit from Portugal's most prominent experts in management, finance and economics. In 2010, 1,836 employees participated in the training courses provided by the BES University in a total of approximately 11,000 training hours. The BES University has spread skills with added value for employees, giving them the right training for their careers.

UniversidadeBES
Quem sabe, sobe

Attracting and retaining the best professionals, offering a training plan that matches needs, providing internal mobility and evaluating and rewarding merit - are the key pillars for the development and career advancement of BES Group employees.

The Group's internationalisation strategy and its presence in international markets offers employees the opportunity of a career abroad and a unique professional experience. The Group has established an expatriation policy – International Mission – to help expatriate employees adapt to their new reality, providing them with social and cultural training on the region, language courses and support to their families.

At the same time, the BES Group has developed international traineeship programmes to attract employees from different origins who are willing to work in different locations, namely:

- Traineeships leading up to the hiring of young people for several international units of the BES Group for periods between six months and a year;

- Cross-border traineeships at BES Portugal for young Spaniards for periods of ten months;

- Traineeships in partnership with Universidade Católica Portuguesa and Universidade Nova de Lisboa as part of The Lisbon MBA, which facilitate the hiring of students from several nationalities and with great potential to join BES operations abroad.

For line roles, a talent pool was set up to identify, appraise and prepare employees with the potential to become branch managers. After a rigorous selection by line departments, candidates are identified for subsequent appraisal according to the goals and the skills required for each role.

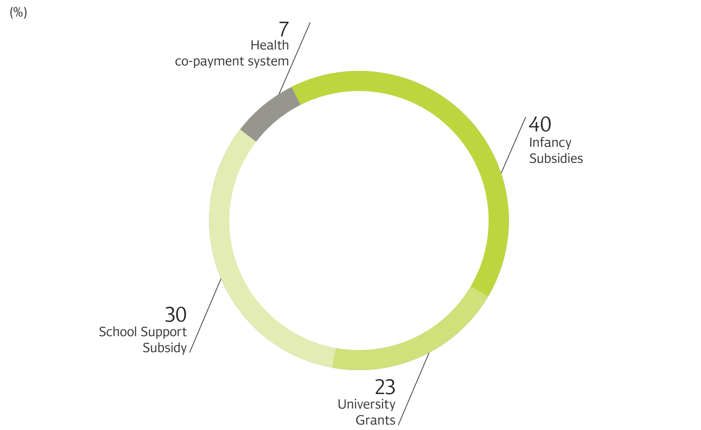
Employee wellbeing and benefits

Personal and professional wellbeing is fundamental for the satisfaction and consequent motivation of the employees.

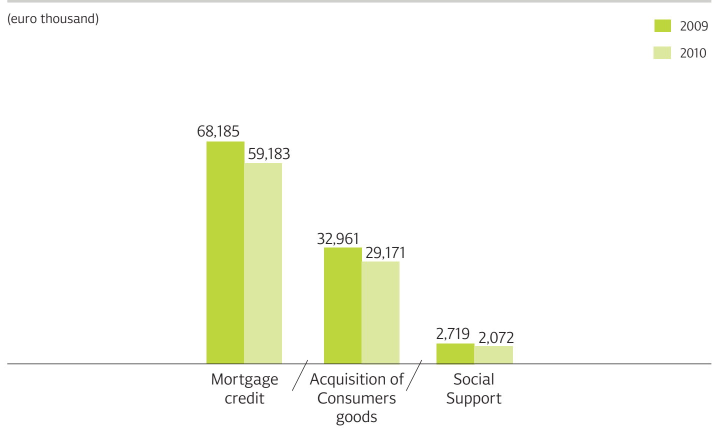
In the current context of crisis, BES concentrated financial benefits on employees with greater needs, making available child benefits, school grants, university scholarships and participation in healthcare expenses. Child benefits continue to represent a significant share of the total support granted: in 2010, 180 employees received a child benefit of EUR 140 per month.

In 2010, BES granted 82 subsidies to employees in distress, namely in situations of unemployment of a family member, over-indebtedness or health problems. In addition to these benefits, the Bank also grants mortgage credit, consumer credit, and social financial aid to its employees and their families.

Benefits granted to the Employees – 2010



Credit and support to employees



Employee health and safety management is essential to create a healthy working environment in which everyone can perform their functions in the best physical and psychological conditions. To this end, BES Group regularly performs risk assessments of working places and employees. In 2010, 165 employees, in 53 working places were assessed for risks of physical or psychological illness. As in 2009, the main risks identified were bone and muscle injuries, stress and eye fatigue.

By identifying the hazards, the employees potentially exposed to these hazards and the probability of hazards occurring, these assessments permit to find solutions to minimise their occurrence.

In addition to these risk assessments, which focus on the employee, BES Group also conducts ergonomic assessments, safety audits, and analyses of air quality, lighting, temperature and noise conditions in the work place. In 2010 the Group performed 84 safety audits and 155 ergonomic assessments.

The Group has its own healthcare services for its employees, which are provided at the Lisbon, Porto, Coimbra and Oeiras (Tagus Park) clinical centres. These centres offer consultations and health services in a number of areas, namely occupational medicine, curative medicine, nursing services, mental health, programmes to quit smoking, the Executive Check-up Programme, breast and prostate cancer screening and screening for cardiovascular diseases. In addition, BES contributes to healthcare expenses for treatment provided by ES Saúde's units, in case of surgical interventions, oncology treatment or palliative care that are not fully covered by SAMS (medical and healthcare services for banking sector employees).

Stress management is another important component of employee health monitoring. To this end the Group has a permanent medical team consisting of one psychiatrist, one psychologist and one social worker. In 2010, 131 employees attended 79 psychology consultations and 396 psychiatry consultations. The main reasons for employees to visit the psychologist are situations related to problems in the family, such as sudden reduction in the household income, unemployment, delayed salary of wages to the employee's spouse, household indebtedness or serious illness in the family.

As regards psychiatry consultations, 22.2% were due to work stress and 23.8% to a combination of work and family stress.

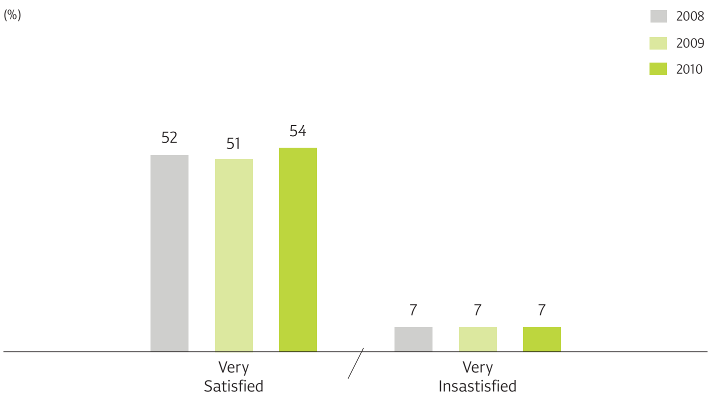
By monitoring the employees in question, or reintegrating them in their functions, the work developed by the medical team has permitted to reduce employees' prolonged absence from work. In addition, this approach has also permitted to collect information and adjust training programmes to the employees and their immediate superiors, thus preventing or diminishing possible occurrences of disease.

In 2010 a specific module on stress management was introduced in BES University's 'Executive Master's in Banking Management' programme, with the aim of teaching employees and managers how to cope with and manage the symptoms and causes of stress.

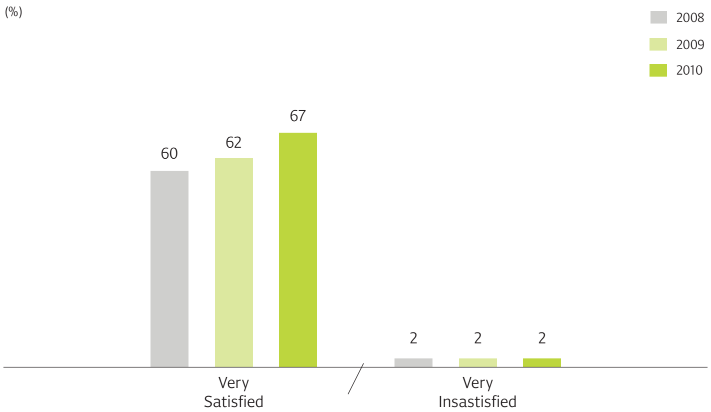
Satisfaction and Motivation

BES conducts an annual survey to measure employee satisfaction. This survey helps determine the social climate in the company and detect situations of maladjustment and/or dissatisfaction with the job. In 2010 the results of this survey showed an improvement, with 67% of the employees responding they were very satisfied with the Bank and 54% that they were very satisfied with their role. This favourable evolution confirms the success of the practices implemented in order to build a healthy and competitive working environment, leading to the sustained growth of BES's results.

Employee satisfaction with function



Employee satisfaction with company



As part of its effort to motivate the employees, BES Group created the Manuel Ricardo Espírito Santo Silva Award and the Idea Bank.

The creation of the **Manuel Ricardo Espírito Santo Silva Award**, was proposed by BES Group's European Works Council. The award, consisting of a cash prize in the amount of EUR 25,000, a merit diploma and a special trophy, is granted in a solemn public ceremony. The purpose is to distinguish employees who stood out in the performance of their functions, not only in professional terms but also for by their high ethical sense. In 2010 the Manuel Ricardo Espírito Santo Award was granted to Licínia Costa and Alvito Lima, who served 36 and 30 years in the Bank.

The **Idea Bank** is a programme of innovation based on the employees' ideas, experience and sense of initiative. The third cycle took place from October 1st, 2009 to September 30th, 2010. During this period, 830 employees submitted 1,700 ideas to a contest held in the following categories:

- Savings/funding products;
- Cost reduction;
- Simplification of processes;
- Banking Income.

From the ideas submitted, 25 were selected for implementation. From these, four received cash prizes in the amount of EUR 5,000 each.

The Idea Bank has triggered small and big innovations within BES Group, rewarding the employees' effort, interest and direct involvement in management improvement.

Conduct

The Code of Conduct brings together the rules and principles that apply to all employees at BES Group companies.

The Compliance Department helps the Group's employees comply with the code and other applicable rules. In 2010 this department received 127 requests for explanations and assistance for better compliance with the code.

The code of conduct was, upon approval, sent to all employees and is part of the documentation handed over to all new employees; its text is permanently available on the intranet and the BES website.

In 2010, BES continued to make a strong effort in the area of supervision, control and compliance of regulations. The following initiatives were taken to strengthen training in this area:

- Training in Behavioural Supervision - provided to 168 employees in the area of private banking, for a total of 678 hours of training;
- Training to upgrade the skills of the internal audit officials - 220 employees, and 1,629 hours of training;
- Training about money laundering – 849 employees, of whom 40 were management executives, in 21 training sessions for a total of 1,680 hours;
- On-line training course provided by the Bank of Portugal to teach bank employees identify false notes – 334 BES Group employees completed this course.

This type of training improves the internal supervision exercised by all employees and therefore contributes to reducing risk. In 2010 a total of 8,994 contracts were analysed, originating 163 notifications to the authorities, and 3,077 accounts were investigated, as a result of which 13 were not opened.

In addition, the training on supervision also permits to decentralise supervision activities, by giving employees engaged in frontline relationships with the clients the mechanisms required to identify potential risks, namely concerning money laundering and terrorism financing.

1.8.2. Clients

Service Quality – a commitment to the clients

To improve service provided to clients, Banco Espírito Santo has implemented across all its business units and departments a client-centric strategy based on transparent communications and the development of sound relationships.

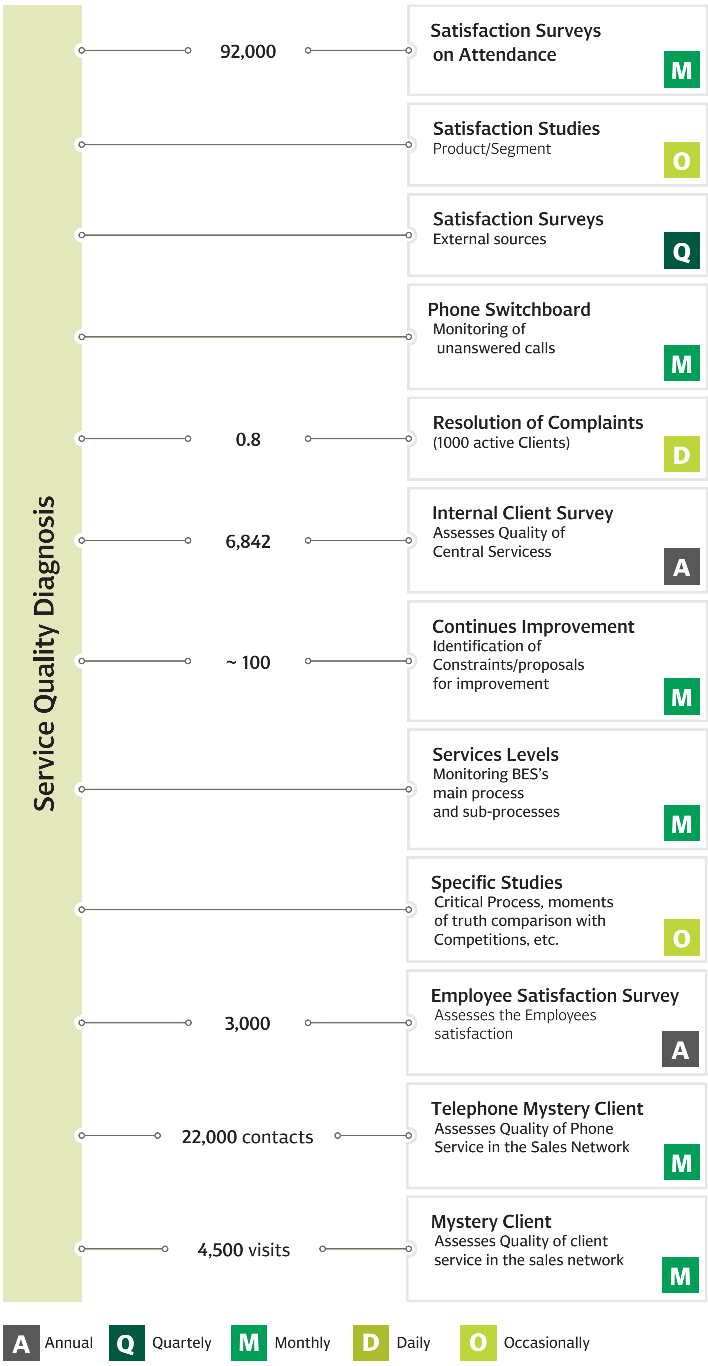
Focus on client means the definition and monitoring of measurable objectives, employee accountability, assessment of results, implementation of improvements, and communication and reward of behaviour and performances that lead to customer satisfaction and guarantee service levels.

Customer expectations are analysed, and service levels are adjusted through a diagnosis that takes into account satisfaction surveys, customers' opinions and national and international benchmarks.

In 2010, the diagnosis of service and products quality focused on the indicators with greater potential for improvement. This diagnosis allowed a detailed analysis of the main points that needed improvement and the consequent establishment of objectives for all employees in terms of satisfaction and service levels.

The Bank includes in the objectives set for employees not only those related to the activity (such as sales objectives) but also objectives linked to other factors such as the results of 'Mystery Client' assessments, customer satisfaction, compliance with service levels, number of calls taken, and complaint solving rates. In addition, the employees are also assessed based on the performance and points to improve given by the global and detailed results of the diagnosis made. This systematic assessment process enhances the Bank's ability to improve processes, products and services, and to constantly adapt to the market's needs.

At the same time, Regional Divisions, Central Departments, Corporate Centres, Private Banking Centres and Branches with the best quality indicators are annually recognised and rewarded.



In the 'Retail Financial Services, strategic insights and best practices 2010" survey conducted by the European Financial Management and Marketing Association (EFMA), BES was considered as an example of good customer service practices. The purpose of this survey is to analyse and disseminate European financial institutions' best practices regarding client management and engagement.

Complaint management is a fundamental process and one that adds value to the Group's activity. As means to improve processes and as a channel of communication, the reply to complaints is an instrument for enhancing customer loyalty and building a relationship of trust with this stakeholder group.

To strengthen this relationship of trust, BES has committed to replying to all complaints within five days. When this period must be extended because the issue is too complex, the client is kept informed about progress made and all explanations are given with the utmost rigour and transparency.

To file a complaint, clients may contact BES through a number of channels: an online complaint form, a direct telephone number, a dedicated email address, by letter, or through the branch network and other points of communication and relationship with the clients. In Bank of Portugal's report "Behavioural supervision activities – interim overview", BES ranks among the financial institutions with the lowest level of complaints for all segments covered by the report. This result shows the effectiveness of BES's complaint management system, based on a client centric strategy focused on the constant improvement of results and service levels.

In 2010 the rate of complaints per 1,000 active clients decreased by 0.3 pp, to 0.8, from 1.1 in 2009.

The wide range of tools to enhance and measure customer satisfaction produced a very expressive result in 2010.

The rate of "very satisfied" clients reached 77.6% in the Retail banking segment and 77.1% in the Middle market segment.

The renewal of BESnet's service quality certification according to quality standard ISO 9001 also raised the quality and demand levels of a preferred client channel that is available around the clock to all subscribing clients.

1.8.3. Suppliers

BES's procurement department plays a key role in the dialogue and relationship with all BES Group suppliers. Since 2007, the Suppliers Portal is the regular channel for communication with this group of stakeholders, which may register in the portal as certified suppliers of BES Group's companies.

In the certification process suppliers must reply to a number of questions intended to assess their sustainability practices, namely concerning labour issues, ethics, hygiene, health and safety in the workplace, and environmental management. In addition, suppliers are also informed about and may voluntarily subscribe to BES Group's principles of conduct, which were drawn up based on the Global Compact principles. In 2010 several questions were added regarding suppliers' contingency plans. The reply to these questions allows the Group to assess the suppliers' capacity to maintain supplies in worst case scenarios such as natural catastrophes.

In December 2010, the Group implemented a scoring process that permits to rank suppliers in accordance with the practices reported in the certification process, with each supplier being subsequently informed of its score. This assessment mechanism not only permits to identify the suppliers with the best practices, but also fosters a better engagement with the suppliers and a sharing of recommendations and experiences about good environmental and social practices along the supply chain.

BES Group privileges local suppliers, which not only reveals a responsible attitude but is also required due to the operational flow of each of its business units. After a reduction of nine days from 2008 to 2009, BES reduced its average payment time further in 2010 to 36 days (1 day shorter than in 2009). The Group seeks to meet all agreed payment terms, thus fostering a responsible relationship with its supply chain.

1.9. The environmental footprint

By minimising the use of paper, other office supplies, water, and energy, to reduce emissions to the atmosphere, BES Group not only lowers its direct impact on the environment but also cuts back its operating costs. Driven by this double goal, both employees and management are motivated to reduce the Group's environmental footprint and to make its operations increasingly eco-efficient.

In order to meet the reduction objectives set for 2008-2013, the Group has formulated an environmental management policy and implemented an environmental management programme. This involves the definition of objectives, the implementation of specific actions that are monitored and evaluated against implemented measures.

Environmental footprint: objectives and results

	Energy	CO_2 Emissions [2]	Paper	Water
2008 – 2013 Reduction Objectives [1]	-11%	-11%	-12%	-11%
Reduction in 2010	-2%	-40%	-6%	-10%

Reference year: 2008
(1) Scope: BES Portugal
(2) Emissions from the use of electricity

In 2010, the Group reduced all environmentally-related uses of resources which reduced its footprint in line with the objectives set for 2013. The Bank also curbed its indirect CO_2 emissions by 40% in excess of the objective established for 2013.

Energy and emissions

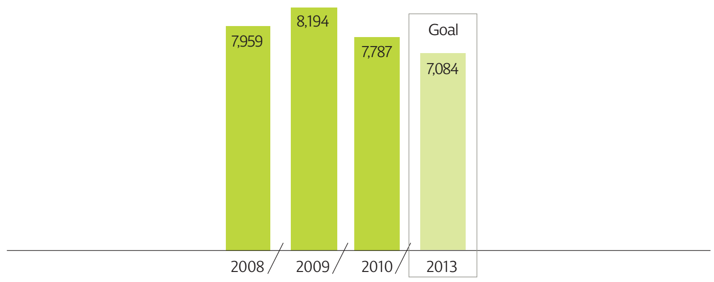
Reducing energy use is a major challenges faced by the Bank. Energy is crucial for the Bank's efficient and safe operations management and it can be expected that other things being equal, that its use will increase as the Group's activities expand.

BES is determined to reverse this trend. To this end, it has established a plan to reduce energy use that not only involves technical changes to the equipment and the remodelling of infrastructures, branches and central buildings, but also raises awareness among employees of the need for them to change their behaviours.

In 2010, BES reduced the use of electricity per employee by 2% relative to 2008, the base year for the objectives. To accelerate this reduction, the Sustainability Committee decided to reinforce the measures already in place. This included not only steps to increase energy efficiency but also the establishment of reduction objectives per employee.

Electricity consumption per employee

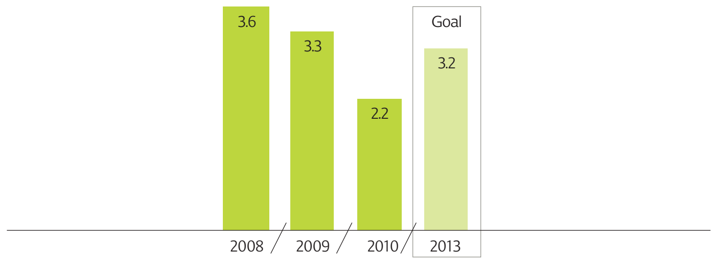
(kWh/ employee)



Does not include the data center's electricity consumption

CO_2 Emissions

(ton/ employee)



Emissions arising from the use of electricity declined by approximately 40%, mainly due to the change in the national energy mix, with an increase in the share of electricity generated from renewable sources. Despite having already met the objective set for 2013, BES will continue to work towards a further reduction in CO_2 emissions. This commitment is reflected within the Energy and Climate Policy, which embodies BES's response to climate change.

BES assesses annually the emissions arising from its activity. In 2010, these emissions fell 24% year-on-year. This considerable reduction was influenced by the efforts made to raise awareness among the employees of the need to follow the company's policy regarding business trips and a wider use of video-conferencing. In 2010, there were a total of 400 videoconferences in all the geographies where BES operates.

Carbon Disclosure Project

In 2010, BES Group improved its score in the Carbon Disclosure Leadership Index by 10 percentage points, to 82%. This is one of the best positions in the financial sector, where the average was 65%.
BES thus stands out among the financial institutions which best disclose a consistent response to climate change.

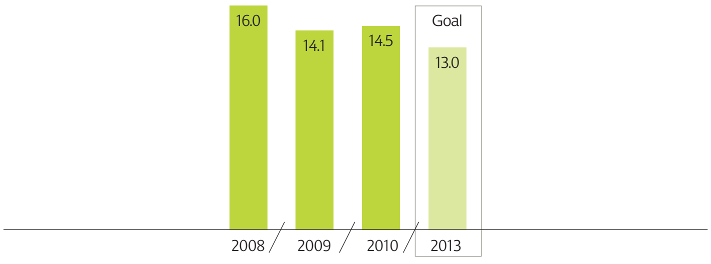
The Carbon Disclosure Project (CDP) acts on behalf of investors to elicit listed organisations to disclose and make available information about their strategic approach to climate change and how it relates to their market value.

Water

In 2010, the Bank's use of water fell 10% compared to 2008, although it rose 3% relative to 2009. BES remains committed to its objective of reducing water use by raising employee awareness of this objective and by installing equipment for this purpose.

Water consumption per employee

(m³/ employee)



*Does not include water consumption in the Marquês de Pombal building, since visitors' consumption biases the consumption per employee ratio used for the analysis of objectives.

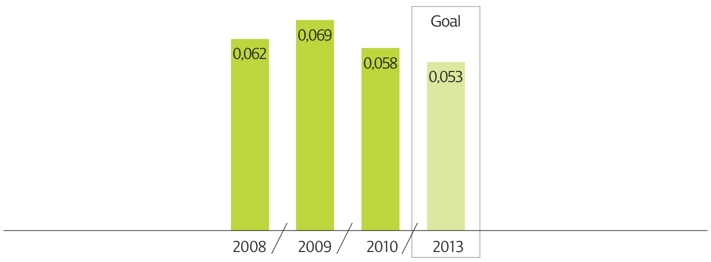
Paper and waste

Paper consumption is quite relevant in BES Group's operational activities.

Increasingly, documents and internal and external processes required for the relationship with clients and suppliers, are scanned. Dematerialisation is an ongoing process that arises from the modernisation of the operations and leads to increased flexibility of communication. A good example of the modernisation of BES's financial services is given by the 'Express Bill' product, in which the associated processes are dematerialised, allowing the client to use it through the transactions available online. In 2010, approximately 610,000 clients chose to receive digital account statements, allowing for further progress in the project of dematerialising the commercial relationship between the client and BES Group.

White paper consumption for internal use

(ton/ employee)



In 2010 paper use dropped by 6% relative to 2008, and by 15% compared to 2009. At the same time, the use of recycled paper increased by 85% in comparison with 2009 and now accounts for 4.3% of the BES Group's total paper use.

The Bank's departments and central services are assigned targets for paper use reduction and the degree of achievement of these targets is compiled and monitored through an internal ranking schedule that is communicated to all departments. The purpose is to change employee behaviour, thereby gradually reducing the use of paper. After dropping 12% in 2009, the use of photocopy paper by at staff departments rose 2.7% in 2010, which will prompt BES to draw employee attention in 2011 to the need of curbing paper use.

The main categories of waste produced by BES Group are paper, cardboard and supplies such as ink and toner cartridges. All these waste items are sent for recycling by licensed companies and in 2010 recycling was four times larger than in 2009.

The impact of BES's activity on biodiversity

BES, in cooperation with the Centre for Research in Biodiversity and Genetic Resources (CIBIO) issues since 2007 an annual report entitled "BES's Activity and Biodiversity". The purpose of this report is to assess the impact on biodiversity and on the environment arising from BES's activity, to identify opportunities for improvement and to propose concrete measures to minimise such impacts. The report analyses two kinds of impacts: direct (resulting from the company's current activity) and indirect (resulting from its financial activity).

As for direct impacts, BES has had a very positive performance in terms of reducing the use of white paper and gradually replacing it by recycled paper.

As to the indirect impacts, a positive note is given by the Project Finance team's use of the 'Sustainable Finance Toolkit' to analyse the environmental and social risks of projects.

CIBIO recommends that the use of this tool be extended, with the necessary adjustments, to other areas of the Group's credit granting business, namely to corporate loans and the analysis of clients, in particular when these engage in activities considered of high risk to biodiversity. The existence of credit lines with attractive conditions to finance technologies, products or services with environmental gains, namely in the area of the renewable energies, is stressed as a positive development, and its reinforcement and extension to other environment-friendly products and services is recommended.

2 Economic Environment

2010 was marked by the sovereign risk crisis in the Euro Area, which was mainly brought about by the strong imbalance in Greece's public accounts and the difficulties faced by Ireland's financial sector, which affected this country's public accounts. These economies' need of financial support from the EU and the IMF raised fears of contagion to other economies in the periphery of the Euro Area, particularly Portugal and Spain, penalising their financial conditions. The downgrade of the peripheral Euro Area countries' sovereign ratings and fears about the deterioration of credit quality (both sovereign debt and mortgage credit) also penalised the funding conditions of European banks. The iTraxx Financials index, which tracks the spreads on Credit Default Swaps, rose by 102 bps in 2010, to 177 bps.

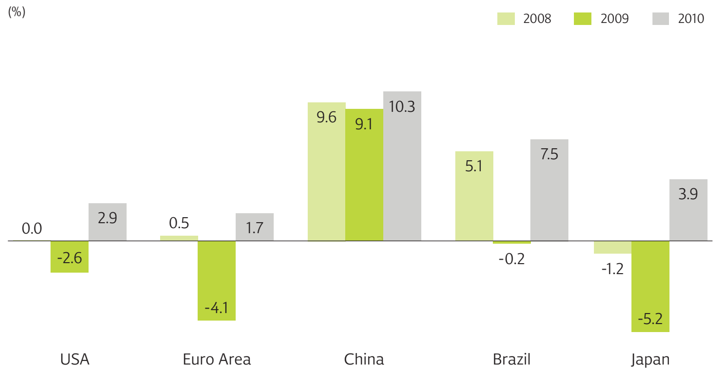
Reflecting the deterioration of investor confidence, the euro dropped by 6.7% against the dollar, to EUR/USD 1.336 at year-end, while the CAC40, IBEX and PSI-20 indices fell by 33.34%, 17.43% e 10.34%, respectively. The DAX climbed by 16.06%, supported by the exceptional performance of the German economy.

Despite fears of financial instability, the year was also marked by an improvement of activity in the main economic areas, underpinned by the monetary and fiscal policy stimuli's lagged impact on domestic demand, and particularly by international trade flows. After having fallen in 2009, GDP grew by 3.6% in Germany, 1.7% in the Euro Area and 2.9% in the US. In this context, and also benefiting from the expansionary stance of the Federal Reserve's monetary policy, the Dow Jones, Nasdaq and S&P500 indices rose in the year by 11.02%, 16.91% and 12.78%, respectively. The main emerging economies remained strong, with GDP growing by 10.3% in China and 7.5% in Brazil.

In China, growth was fuelled by the strong dynamism of demand allowed by the persistence of expansionary monetary conditions, despite the restrictive measures implemented by the Central Bank (increase of benchmark interest rates and banks' reserve requirement ratios, administrative restrictions on credit volumes, and a 3.5% rise of the renminbi against the US dollar). The upward trend of inflation was one of the main concerns of the Chinese authorities, and of financial markets in general, especially towards the end of the year.

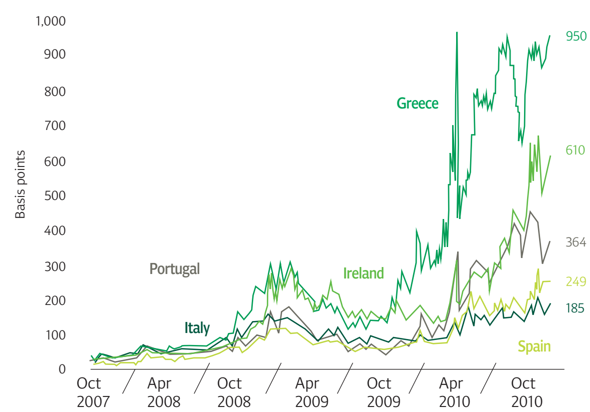
These concerns largely stemmed from the rising prices of commodities. The price of Brent crude rose from USD 77.2 to USD 94.3 per barrel between the end of 2009 and the end of 2010. Expectations of mounting global demand and various restrictions on supply (in part related to adverse weather conditions) also contributed to drive up the price of food commodities and industrial metals, with the Commodity Research Bureau's Food and Metals price indices rising by 27.7% and 24.4%, respectively, in the year.

GDP Growth, Selected Economies (%)



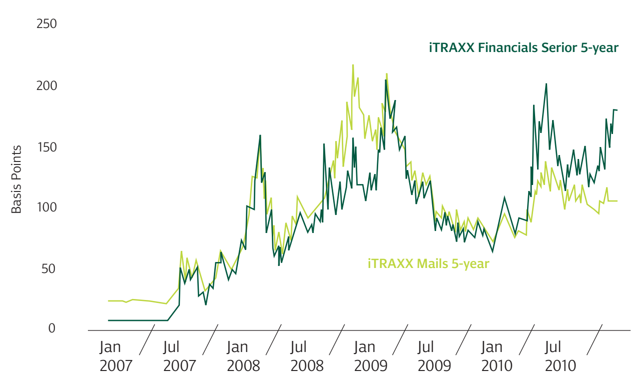
Source: IMF, National Statistics Institutes.

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



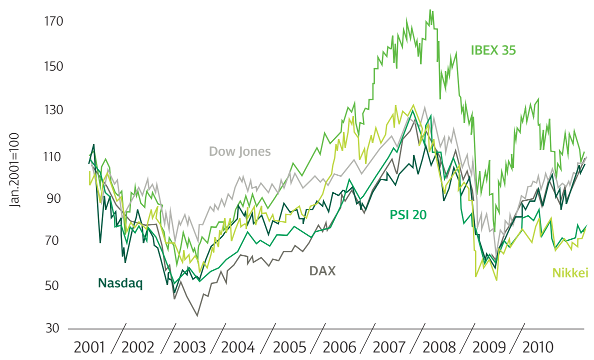
Source: Bloomberg

iTraxx Index



Source: Bloomberg.

Main Stock Market Indices

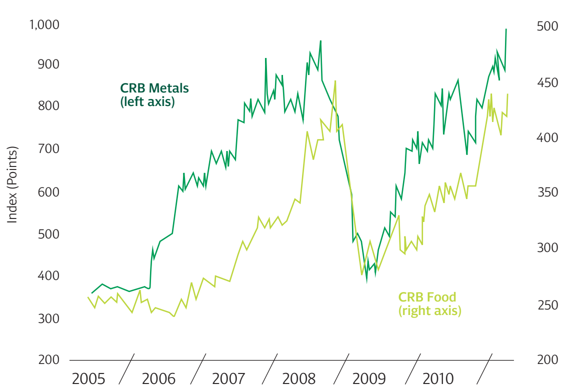


Source: Bloomberg.

Oil Price (USD/barrel)

Source: Bloomberg.

CRB's Food and Metals Indices



Source: Bloomberg.

Following GDP's 2.6% contraction in 2009, and despite a climate of high uncertainty and risks, the United States economy grew by 2.9% in 2010. However, this annual record resulted from two distinct periods in the year.

The markedly expansionary economic policy put in place by the Government and the Federal Reserve following the 2009 recession produced maximum effect at the end of that year, this effect subsequently subsiding during the first half of 2010, with the stimuli failing to have any visible traction (or "multiplier effect") on domestic demand. In annualised terms, GDP growth decelerated from 5% in the fourth quarter of 2009 to 1.7% in the second quarter of 2010, while the unemployment rate, although abating, still remained high (at 9.5% of labour force at the end of the first half of 2010). The persistence of a high excess capacity contributed to the downward trajectory of inflation (both headline and core inflation) during the period. In early summer, fears of a new recession and heightened risks of a deflationary scenario became more visible.

With the Federal Reserve's first programme for the acquisition of debt securities (e.g. mortgage-backed securities) maturing in March, and its balance sheet showing an undesired contracting trend, monetary policy entered a new phase in August, when the proceeds from the maturing debt instruments were reinvested in long-term US government bonds. Thus, while seeking to maintain its balance sheet unchanged, the Fed has also signalled to the financial markets the possibility of new expansionary measures. In an attempt to maintain an environment of low long-term interest rates, the monetary authority announced in November a new programme to purchase long-term Treasuries for an additional USD 600 billion.

On the fiscal front, the Obama administration announced new stimuli to domestic demand, including the extension of a substantial part of the tax cuts from the Bush administration, totalling more than USD 800 billion.

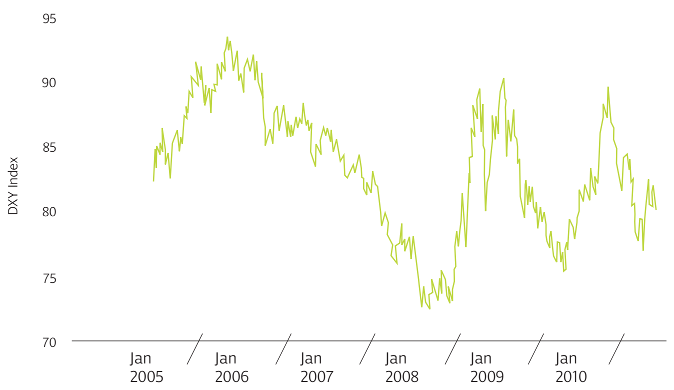
The action taken by the authorities induced a reversal in the markets' negative sentiment, and this was further consolidated as the main economic indicators suggested that the probability of a double dip and deflation scenario was receding. In this context US GDP grew by 2.6% in the third quarter and by 3.2% in the fourth quarter (in annualised terms), underpinned by the improving performance of private consumption (annualised increase of 4.4% in the fourth quarter). Towards the end of the year there was also a significant recovery in loans to non-financial corporations, with banks' increased availability to finance this sector being to a certain extent induced by an improvement in corporate earnings (both financial and non financial).

The last quarter of the year interrupted the downward trend of market interest rates, which, combined with the improved outlook for economic activity and the maintenance of a strongly expansionary monetary policy, raised fears of future inflationary pressures. Apart from the extraordinary liquidity injections, the Fed gave no sign that it intended to initiate a cycle of benchmark interest rates hikes, maintaining the fed funds' target rate within a range of 0% to 0.25% throughout 2010.

US Federal Reserve Balance Sheet

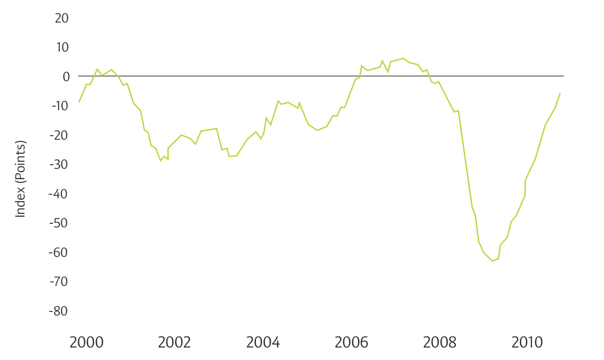
Source: Reuters EcoWin.

USD, Effective Exchange Rate



Source: Bloomberg.

EC external demand indicator (SRE)



Source: Blooomberg.

The **Euro Area** economy consolidated in the course of 2010 the trajectory of gradual recovery of activity initiated in the second half of 2009, which ended the period of recession begun in the second quarter of 2008. Thus, after contracting by 4.1% in 2009, GDP grew by 1.7% in 2010. This recovery was underpinned by the dynamic performance of exports, driven by the surge of international trade flows, and in particular by demand from the emerging economies, which exerted a strong pull on industrial production. Activity was especially strong in the second quarter (1% QoQ growth), benefiting from the stimulus provided by the expansionary public policies implemented.

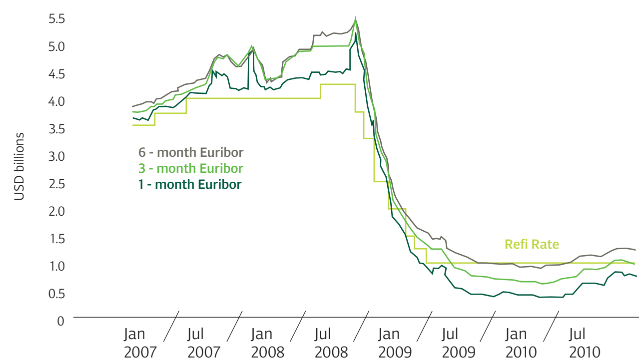
However, the basis of economic recovery gradually widened, now being also sustained by an improvement in private consumption and a deceleration in the falling trend of investment (investment in equipment actually increased compared to the previous year), in line with rallying confidence levels and the progressive normalisation of financing conditions in the core economies.

Still, the recovery of activity was not even across the Euro Area, featuring clearly diverging performances among the various member states. The German economy was particularly strong, growing by 3.6% in the year. This increase, the highest since reunification, was largely driven by exports and investment in equipment. This performance is in sharp contrast with the deceleration or even contraction registered by the peripheral economies of the Economic and Monetary Union. Hence the Greek, Irish and Spanish economies all contracted, the first by more than 4%, mainly due to the strong efforts for fiscal consolidation under way in these member states.

The average annual inflation rate was 1.6%, up from 0.3% in 2009. This increase was largely driven by the rising price of energy, transports and food. However, the underlying inflation rate, which excludes these components, declined compared to the previous year, translating the absence of demand-driven inflationary pressures – to which the high excess capacity and the rise of the unemployment rate, to 10% of labour force, also contributed.

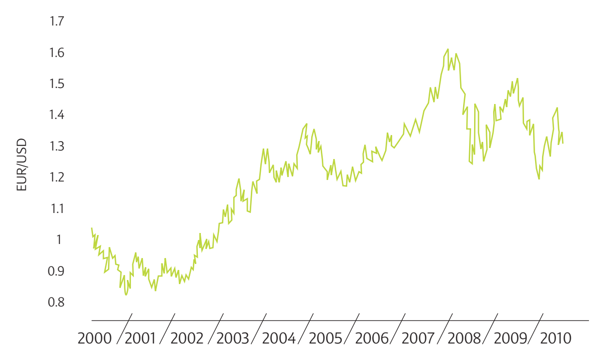
In this context, the European Central Bank kept the benchmark interest rate unchanged during the entire year (at 1% since May 2009). At the same time, the monetary authority provided ample liquidity to the banking system, not only through 3-month unlimited liquidity operations, but also, as from May, through purchases of public debt securities in the secondary market in an effort to lower the tension observed in the sovereign debt markets of certain peripheral states. In order not to increase the money supply, the amount of debt securities purchased under this programme - EUR 73.5 billion at year-end – was sterilised through short-term deposits made by commercial banks with the ECB.

Euro Area – refi and Euribor rates (%)



Source: Bloomberg

EUR/USD



Source: Bloomberg

Economic Activity in the Main Geographies where BES Group operates

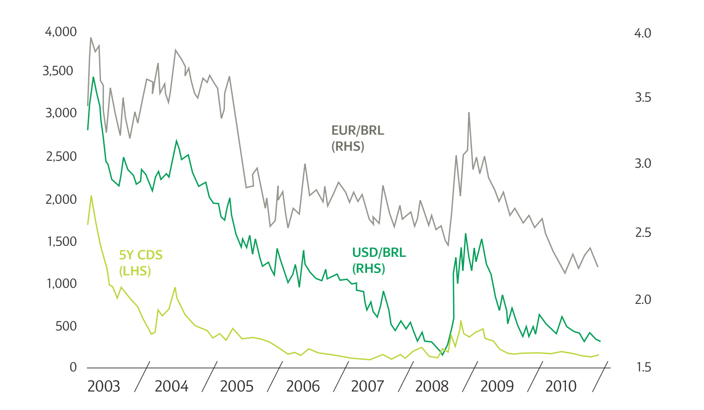
Brazil

Mainly on the back of its vigorous domestic demand, the Brazilian economy grew by 7.5% in 2010, further propelling Brazil's affirmation as a region of growing importance in the global economic scenario. The last two years have shown that Brazil's economic fundamentals allow it to surpass critical situations with less damage than in the past. But 2010 has also shown that the country holds on to the challenge of raising potential growth in order to prevent a situation where an intense growth pace breeds fears about the emergence of large macroeconomic imbalances. In fact, with industrial production returning in 2010 to pre-crisis levels, there were growing signs that the sector's excess capacity was nearing exhaustion, leading to risks of upward pressure on inflation. This is all the more evident when we look at the performance of retail trade, which, fuelled by the expansion of credit and the increasing purchasing power of the Brazilian population after reaching full employment, registered practically uninterrupted growth in the course of 2010. With demand strongly expanding and the economy's surplus capacity practically exhausted, inflation followed a rising trend throughout the second half of the year, reaching 5.9% at year-end. Although the growing price of commodities, and especially of agricultural commodities, is in part to blame for the deterioration of the inflationary scenario, the services sector also made a significant readjustment of prices in response to the domestic market's increased vigour. In this context, the Central Bank decided in April to adjust the benchmark rate, partly reversing the monetary stimulus introduced after the 2008 financial crisis. The SELIC rate thus increased to 10.75%, from 8.75% at the end of 2009.

If Brazil's solid economic fundamentals already exerted a strong attraction on foreign investors, the rise of the basic interest rate, combined with still favourable growth prospects, further stressed this attractiveness, translating into a large flow of external investment into the economy. This strong capacity to attract funds from abroad not only caused the current account deficit to nearly double when compared to 2009, but also led to a new increase in the stock of international reserves, which closed the year at nearly USD 300 billion (which vastly exceeds the country's total public and private debt), thus consolidating Brazil's net creditor position. The Brazilian real rose against the dollar from USD/BRL 1.74 at the end of 2009 to USD/BRL 1.74 at the end of 2010.

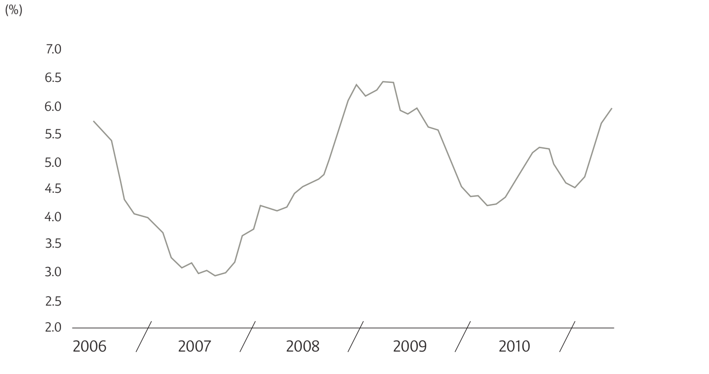
Despite Brazil's relatively solid economic fundamentals, and favourable growth outlook for the coming years, the Bovespa index only advanced by 1% relative to the close of 2009, the result of an apparent correction in prices and a flight to lower risk assets during the first half of the year. This trend was reversed during the second half, but not sufficiently to take the index to new record highs.

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



Source: Bloomberg

Brazil – YoY Inflation rate (%)



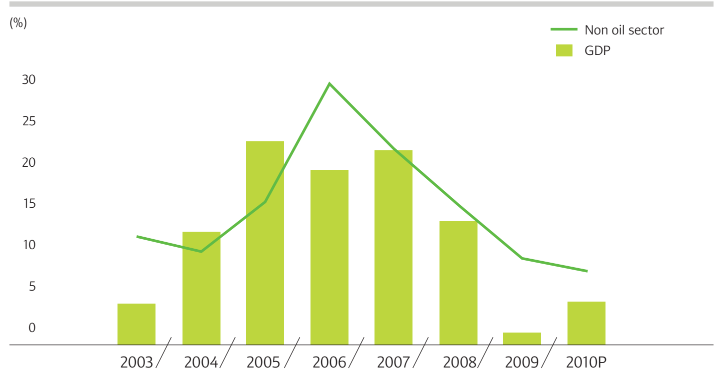
Source: Bloomberg

Angola

After sharply decelerating in 2009 (with GDP growth falling from 5.6% to 2.5%), Africa's economy as a whole significantly recovered in 2010, mainly on the back of the improved situation of the commodities markets, and particularly of the energy market. The group of oil-exporting countries in Sub-Saharan Africa (including Angola, Cameroon, Chad, the Republic of Congo, Equatorial Guinea, Gabon and Nigeria) grew by more than 6%, favoured by the upward trend of prices and demand, the latter being in part driven by Emerging Asia.

In the specific case of Angola, the acceleration of economic activity in 2010 stemmed from an increase in oil revenues (despite the temporary problems that have recently affected production) and the increased vigour of the non--oil sectors, such as construction, services, and agriculture, notwithstanding a more restrictive fiscal policy. At the same time, private investment was also buoyant, reaching USD 1.25 billion at the end of the first half of 2010, which is 177% higher than one year earlier. The Angolan economy thus grew slightly above 2% in 2010, accelerating when compared to 2009 (0.7%).

GDP and non-oil sectors real growth (%)



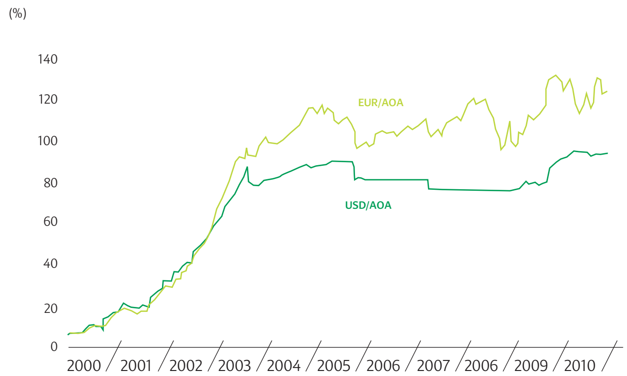
Source: IMF, Bloomberg

As a reflex of the agreement signed in 2009 with the IMF concerning the concession of a loan of up to USD 1.4 billion to promote the financial stabilisation of the economy and address the funding needs of various structural projects, 2010 already saw a recovery in net international reserves, the restoration of the foreign exchange auction system, increased transparency in public debt management, the creation of a new legal framework for the approval of public works projects, and the proposal to create a sovereign fund enabling an adequate long-term management of revenues from oil production.

On the foreign exchange front, ever since the monetary authorities decided to abandon the Angolan currency's peg to the US dollar, the Kwanza has been within a range of USD/AOA 90-94. However, stability against the dollar meant depreciation against a rising euro. Therefore, and in so far as the majority of Angola's imports come from the European Union, this behaviour of the Angolan currency has contributed to maintain the inflation rate above the level desired by the authorities.

2010 thus continued to see an upward trend in prices, which was mainly driven by the rise in food and beverages prices. Besides the foreign exchange factors referred, the international increase in commodity prices also strongly contributed to push up inflation. This effect on the price of food products, which continues to translate the existing constraints at the level of logistics and distribution, stresses the pressing need for investment in logistics infrastructures (warehousing, transport and distribution), as well as for greater domestic production capacity. In this context, annual inflation in 2010 rose to slightly above 15%.

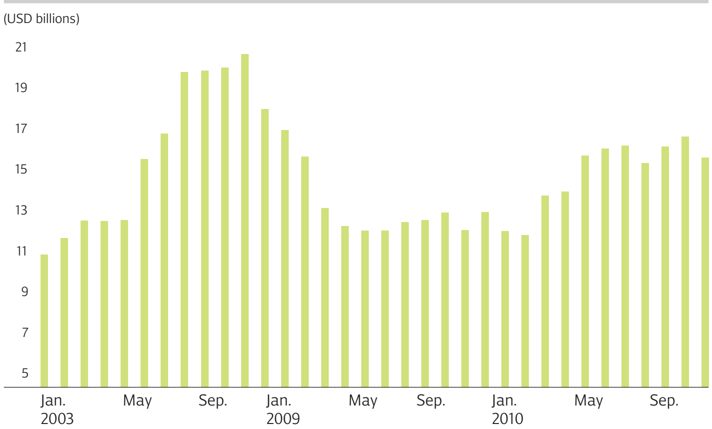
Angola – AOA/USD and AOA/EUR



Source: Bloomberg

At the monetary policy level, and for the first time in two years, the National Bank of Angola cut the interest rate charged for short-term loans to commercial banks, in an attempt to stimulate economic activity. The rediscount rate was thus reduced by five percentage points, from 30% to 25%.

Angola – External Reserves (USD billion)

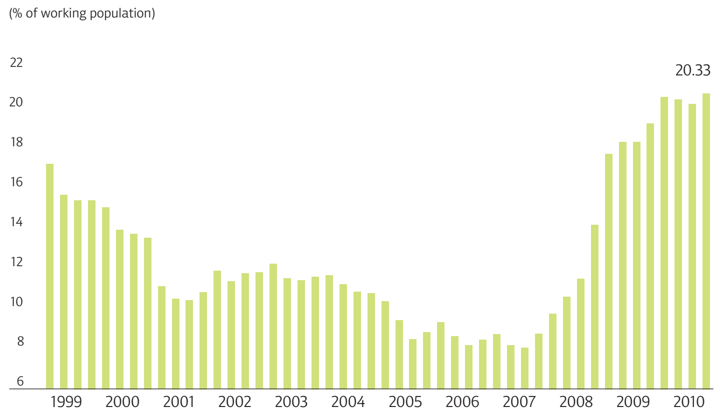


Source: National Bank of Angola.

Spain

The Spanish economy experienced a marginal retreat in 2010 (-0.1%), thus reacting to the strong contraction suffered in 2009 (-3.7%). This better performance was mainly underpinned by the recovery in household consumption – which grew by 1.3% in the year -, despite the deterioration in the labour market, with the unemployment rate expanding from 18.8% to 20.33% of the working population, the highest record in more than ten years.

Spain – Unemployment Rate



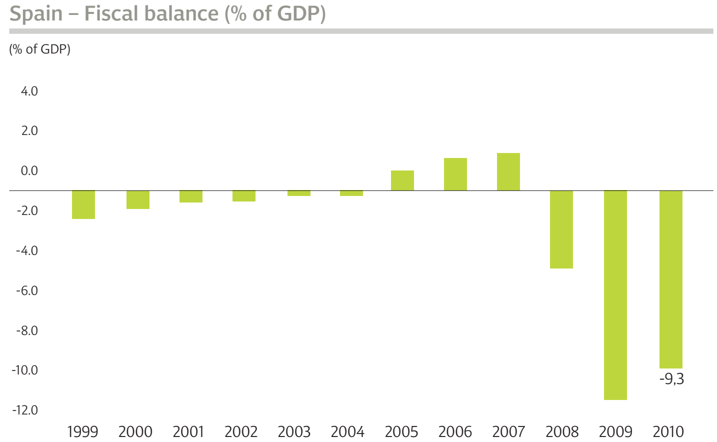
Source: Bloomberg.

Despite a 2.2% increase in expenditure in capital goods, investment fell by 7.4%, once again due to the adverse performance of the construction sector, which shrank by more than 10%. Public consumption declined as a result of the austerity measures implemented by the government, enabling a recovery in the contribution of domestic demand to the growth of the economy. Net external demand gave a positive contribution to growth – exports picked up, underpinned by the acceleration of the global economy as well as by productivity gains, while imports grew at a slower pace.

After a small decline in 2009, the average annual inflation rate increased to 1.7%. This was due to the increase in fuel prices as well as to the rise of the VAT rate as from July 1st.

The fiscal deficit, which had reached 11.1% of GDP in 2009 as a result of the sharp contraction of activity, dropped to close to 9.3% in 2010. Besides raising the VAT rate, the government reduced civil servants' pay by 5% and made significant cuts in health expenditure, investment and welfare payments. These restrictive measures were reinforced in a context of investors' concerns with the sustainability of the public debt in the Euro Area peripheral countries. Reflecting these concerns, the main international rating agencies downgraded their ratings of the Spanish public debt - Standard & Poor's to AA, from AA+, Fitch to AAA, from AA+, and Moody's to Aa1, from Aaa. Generally speaking, all three agencies cited as reasons for the downgrade the fragility of the economy that weakens the fiscal position, the large indebtedness of the private sector, the lack of flexibility in the labour market, and the impact which the necessary restructuring of the financial sector will have on the economy's recovery process.

Spain – Fiscal balance (% of GDP)



Source: Spanish Government

Portugal

2010 was characterised by the deterioration of financial conditions in the Portuguese economy as a result of an increase in risk aversion to the peripheral Euro Area countries, and in particular of the two notch downgrade, to A-, of the Republic's rating, made by one of the main rating agencies in April. The spread between the yields of the 10-year public debt securities and the German benchmark Bunds rose by 296 bps in the year, to 364 bps (with a high of 460 bps in mid-November). Despite having a solid solvency position, the Portuguese banks were exposed to an adverse external environment in access to liquidity, forcing them to increase funding obtained from the ECB's liquidity providing operations, as well as to adjust the financing conditions of domestic economic activity, which became more restrictive.

However, notwithstanding a drop in consumption and investment in the second half of the year, the Portuguese economy grew above expectations, rising by 1.4% in 2010 as a result of the dynamic performance of exports. This relatively favourable performance, which contrasts with the negative growth observed in other Euro Area peripheral economies under the focus of the markets (Spain, Ireland and Greece) resulted also in part from the fact that demand was not affected, as elsewhere, by the negative wealth effects associated to corrections in the real estate market.

In the context of the sovereign risk crisis in the Euro Area, fiscal policy was characterised in 2010, and especially in the last quarter, by the adoption of severely restrictive measures aimed at reducing the deficit from 9.3% of GDP in 2009 to 4.6% in 2011. These measures included the increase of income and consumer taxes, with the VAT rate being raised in July from 20% to 21%, and in January 2011 from 21% to 23%. On the expenditure side, the government announced wage cuts, a freeze on civil servants' recruitment, and also cuts on social and capital expenditure. In 2010 the general government deficit was reduced to 6.9% of GDP, coming below the initial estimate of 7.3%, but this was in part achieved through the transfer of Portugal Telecom's pension funds assets to the public pension system, which brought in an extraordinary revenue corresponding to 1.1% of GDP. The public debt increased from 76.1% to 82.1% of GDP, remaining below the Euro Area average of 84.1% of GDP.

The increase in the average annual rate of unemployment – from 9.5% to 10.8% of labour force -, and the expected reduction of disposable income penalised consumer confidence and caused domestic demand to decelerate towards the end of the year. Nevertheless, private consumption grew by around 1.9% in the year, mainly on the back of the anticipation of consumption decisions in view of the announced VAT increases, an effect that was mostly visible in the acquisition of durable goods (especially transport vehicles). In average annual terms, inflation rose from -0.8% to 1.4%, with prices accelerating in the last months of the year mainly due to rising energy prices. Year-on-year inflation reached 2.5% in December.

The deterioration of expectations in view of the evolution of domestic and external demand, high uncertainty levels, and more restrictive financing conditions, led to a new fall in investment, which dropped by around 6% (-14% in 2009). This contraction in capital expenditure occurred across all sectors – families, companies and public administration.

Exports expanded by 8.8%, after declining by 11.7% in 2009. This performance was mainly driven by manufacturing industry exports, which benefited from the recovery of demand and industrial activity at global level, and by extension, within Portugal's trade partners in the Euro Area (especially Germany, which increased GDP by 3.6%). In the last months of the year external orders to the manufacturing sector continued to show buoyant growth (ca. 50% YoY in nominal terms).

Portugal - Main Economic Indicators

	2003	2004	2005	2006	2007	2008	2009	2010E
GDP	-0.9	1.6	0.8	1.4	2,4	0.0	-2.5	1.4
Private consumption	-0.2	2.7	1.7	1.8	2.5	1.8	-1.0	1.9
Public consumption	0.4	2.4	3.3	-0.7	0.5	1.1	3.4	2.1
Investment	-7.9	3.7	-0.9	-0.6	2.0	-0.5	-14.0	-5.7
Exports	3.6	4.1	0.2	11.6	7.6	-0.3	-11.7	8.8
Imports	-0.5	7.6	2.3	7.2	5.5	2.8	-10.6	4.6
Inflation (CPI)	3.3	2.4	2.3	3.1	2.5	2.6	-0.8	1.4
Fiscal balance (% of GDP)	-3.0	-3.4	-5.9	-4.1	-2.8	-2.9	-9.3	-6.9
Public debt (% of GDP)	55.1	56.5	61.7	63.9	62.7	65.3	76.1	82.1
Unemployment (% of working population)	6.4	6.7	7.6	7.7	8.0	7.6	9.5	10.8
Balance (% of GDP)	-4.1	-6.0	-8.2	-9.1	-8.9	-11.1	-9.4	-8.5

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

The good performance of exports and the progressive adjustment of domestic demand (putting downward pressure on imports) contributed to lower the external deficit. The combined current and capital account balance, which reflects the economy's net external financing needs, declined from 9.4% to 8.5% of GDP. The ongoing deleveraging process in the Portuguese economy was also visible in the net stock of external liabilities, which retreated from 109% to 104% of GDP.

3 Commercial Activity

In monitoring performance by business area, the Group considers the following Operating 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.

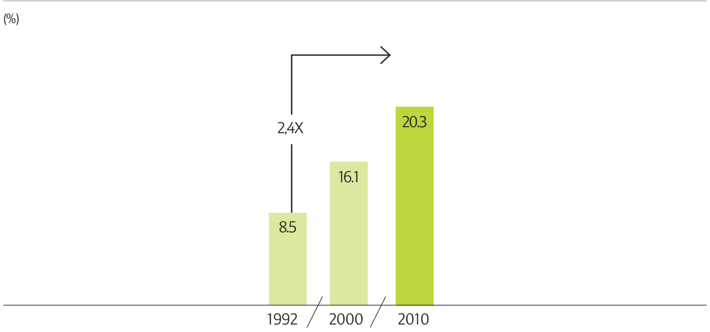
Each segment is supported by directly dedicated structures, as well as by the units of the Group whose activity is most closely related to each of these segments. These structures run individual monitoring of each operational unit of the Group (considered from the viewpoint of an investment centre) while the Executive Committee defines strategies and commercial plans for each operating segment.
As a complement to this, the Group uses a second segmentation of its 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

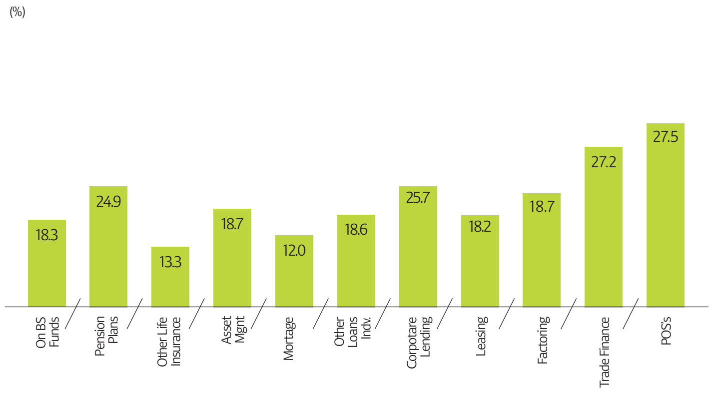
Since its privatisation in 1992 BES Group has followed a clear and consistent strategy of organic growth in the domestic market, developing an approach based on a multispecialist model. Through this growth strategy, backed by a solid franchise and strong commercial growth in the individual and corporate client segments, the Group has been able to achieve sustained market share gains. Its average market share more than doubled between 1992 and 2010, rising from 8.5% to 20.3%.

In 2010 the Group posted a very strong market share in the corporate banking business lines, namely in trade finance, where it reached 27.5%, substantiating BES Group's important role in the internationalisation of the Portuguese companies.

Average domestic market share



Domestic market share per selected product



3.1.1. Retail Banking

BES Group's approach to the retail clients is based on a diversified and distinct offer that targets the clients' financial needs. The creation of differentiated value propositions is supported by the constant development of products and services, portfolio segmentation criteria adjusted to the clients' characteristics, high service quality and effective communication.

Over the last few years BES has developed innovative value proposals for Retail, specifically for the segments of affluent clients ("BES 360º"), small businesses and independent professionals ("Small Businesses"), and individual retail clients ("Mass Market").

Focus on the client and commercial proactivity are essential, not only to maintain high client acquisition levels, but also to ensure the clients' permanent satisfaction. Reflecting this approach, the number of loyal clients has been steadily increasing, reaching 619,000 in 2010.

A total of 119,000 new clients were acquired in 2010, as a result of good coordination between the branch network and the main client acquisition channels, especially the Assurfinance and cross-segment programmes.

Assurfinance and Bancassurance

The Assurfinance programme, which resulted from a strategic partnership with Companhia de Seguros Tranquilidade, is one of the main client acquisition channels. The programme seeks to attract clients that do not have a banking relationship with BES Group and offers Tranquilidade's insurance agents the possibility to cross sell BES Group's wide range of banking and insurance products to meet the requirements of Tranquilidade's clients.

The Assurfinance programme mobilises some 2,000 agents which in 2010 attracted around 18,000 new clients to the Group.

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. 2010 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.

BES 360: excellence in financial counselling and customer service

The BES 360º service – a reference proposition in financial counselling and customer monitoring - was created 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.

A number of strategic and distinctive initiatives support the competitiveness of the value proposition offered to the BES 360º segment:

- 35 '360º' Centres: these specialised units implement the value proposition for the affluent segment;
- '360º Map: financial planning tool that 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 pioneering service in the Portuguese market, while offering considerable advantages to the customer, further reinforces BES Group's already strong competencies in the area of financial advisory services;
- 'BES 360º' commitment: the promise of excellent customer service is translated into concrete targets, guaranteeing a professional, rigorous and dedicated attitude, effectiveness in the resolution of problems, and a proactive search and presentation of solutions that meet the needs of every client;
- Competitive offer: innovative products that meet not only the financial requirements of the affluent clients - such as the Fixed Income Investment Funds, with regular payment of interest and guaranteed principal at maturity -, but also their non financial needs, namely through specific healthcare, security, leisure and energy certification solutions;
- BESnet Trading Platform: innovative, user friendly and easy to navigate solution for stockmarket trading that combines a wide range of functionalities in a single interface;
- Innovative communication tools: BES was the first institution in Portugal to offer its clients the possibility of owning an iPad tablet.

In 2010 'BES 360º' scored two important achievements: the number of loyal clients surpassed 100,000 and customer funds reached more than EUR 10 billion. 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**, an innovative electronic banking service for asset management and securities trading.

BES's new website, launched in 2010, permitted to link the specific characteristics of banking and financial products to online functionalities. The online securities trading offer was improved through the update of the trading platform, which features an innovative Quick Trade tool, ETFs online trading via Morningstar as well as reinforced mobile banking platform facilities. The result of these innovations products and services available online was a 17% increase in deposits contracted online, and a 30% rise in investment funds' trading volume.

Supported by an offer of ca. 2000 mutual funds, customer subscriptions increased by 24%. Customer deposits increased by 12%, while customer loans grew by 61%, underpinned by an increase in low risk, adequately collaterised products. In the international wholesale business line, the volume of assets under custody increased by 38%, which, together with the increase in other client assets under custody, drove up total assets under custody to EUR 1.7 billion at the end of 2010.

Small Businesses: the segment maintains profitable growth

Commercial activity in the small businesses segment focused on the expansion of the loyal clientele, the reinforcement of a relationship as the first bank of clients in strategic low risk segments (e.g. pharmacies, healthcare and notary publics), increasing client acquisitions, and taking timely action to mitigate credit risk.

Capitalising on the solid experience gained since the implementation of a segmented sector approach in 2009, BES achieved in 2010 a leading position in various business segments, notably pharmacies, healthcare and notary publics. In 2010, 50% of the pharmacies, 55% of the healthcare providers and 85% of the notary publics in Portugal did business with the bank, while 30% of all these companies consider BES as their main bank.

Hence, despite the overall downward trend in credit to the retail segment, the Group maintained a share of 41% in short-term loans to the clients with the best ratings within the segment, and these clients' loan portfolio actually increased by 3.7% year-on-year.

In the current economic context, some of the main concerns faced by companies are to ensure safe payment for their sales and adequate funding for their working capital. Heeding these concerns, BES extended to its clients in the small businesses segment the BES Express Bill solution, an innovative system for payments and receipts permitting to issue forward payment orders guaranteed by BES. In the second half of 2010, a total of EUR 16 million in credit facilities were approved, to 230 companies.

To reinforce its leadership in everyday management products, BES redefined its offer of Points of Sale Terminals, simplifying processes, making the available solutions more competitive, and adapting these solutions to enable clients to be paid by card in small amount transactions.

The objective of increasing banking relationships with partners in client firms was achieved: at year-end 2010, more than 4,000 partners in client firms were banking with BES, corresponding to customer funds of EUR 1 billion.

Mass Market

The growing difficulties faced by the Portuguese economy in 2010 took their toll on BES's individual clients: the increase in the rate of unemployment and reduction of disposable income contributed to reduce demand for credit (both mortgages and consumer) and made more pressing the need to save.

In these circumstances, the Group sought to meet the main concerns of Portuguese families, reinforcing its offer of savings products and other everyday protection products.

Underpinned by the launch of competitive and innovative savings products – such as the 'Conta Rendimento CR' (CR income account) and the 'Depósito Crescente' (growing deposit), – and strong communication initiatives, total customer funds in the mass market segment increased by 7.2% year-on-year, with on-balance sheet customer funds rising by 21.1%.

In a scenario of greater uncertainty, the Group stressed its offer of insurance products providing protection for families facing unpredicted situations. Accordingly, in July the Group launched the 'Seguro BES Dia-a-Dia' (BES Everyday insurance), an insurance product that provides compensation of up to EUR 1 million per day for a level of disablement of just 5%, caused by the most unexpected accidents which may occur in everyday life. Supported by a highly visible advertising campaign, a total of 11,300 policies were sold. Another strong product, the 'Seguro de Protecção do Salário' (salary protection insurance), ensures an extra compensation (35% of the salary for a period of 6 months) in case of involuntary unemployment. This product registered a year-on-year increase of 51% in new policies sold in 2010.

Addressing the current need for families to cut on their everyday bills, the 'Vantagem Família BES' (BES Family Advantage) campaign, launched in the first half of the year, offered a 10% refund on supermarket bills to families that domicile their salary with BES. With new offers included (such as car and health insurance for families, and a new offer for young people), the 'Vantagem Família BES' product was highly successful, reaching more than 30,000 subscriptions in 2010.

In terms of credit, the loan portfolio in the Retail segment registered a year-on-year reduction of 0.3%. This was due to greater selectivity in credit granting combined with the increase in the cost of new loan contracts. The profile of mortgage credit production gives a clear indication of the level of selectivity employed: the loan-to-value ratio (amount of the loan / property value) in new contracts dropped in the second half of the year to 73%, from 78% in 2009.

Current economic conditions in Portugal also led to an increase in the number of families with difficulties to meet their obligations under loan contracts. In such cases, BES has sought to support its clients and to find solutions allowing them to surpass temporary economic or family problems.

Hence in 2010 the Group helped 398 families to find the best solution to meet their obligations. This involved the restructuring of 239 mortgage loans and 159 consumer loans. In addition, DECO (Portuguese Association for Consumer Protection) also referred to BES 320 request for assistance from indebted clients. After analysing the possibility of debt restructuring for such cases, the terms of 30% of these loans were renegotiated.

In addition, and as a preventive measure, BES contacted clients showing indications of potential risk of default in the future. These contacts helped to define commercial action guidelines for each case.

Being aware of the importance of a balanced family budget, in 2010 BES created a mini website where clients and prospective clients can make loan simulations and assess their probability of default, based on their net monthly income and expenses. This application helped some 109,000 users to self-diagnose their situation.

The Group also operates in the mass market segment in the Azores, through Banco Espírito Santo dos Açores. In the current economic context, strict monitoring and provisioning of credit, and in particular of non-performing credit, became the main objective of the activity in 2010. Increasing the market share and attracting new clients, namely within the institutional segment, were also important activity targets of the year. BES Açores started providing regular services to the Regional Government of the Azores, and various Regional Public Departments opened accounts with the bank. BES Açores continued to develop a number of commercial actions aimed at strengthening the services provided to the client and to society in general, having signed several protocols with companies and institutions, and supported social and cultural initiatives.

As regards the bank's activity in 2010, customer deposits grew by 7% year-on-year. Customer loans were up by 8%, with mortgage credit growth slowing down to 5%, from 8% in 2009.

Specialised offer

In its approach to the mass market segment, Banco Espírito Santo seeks to adjust its offer to segments of the population that, on account of their ethnic, cultural or socioeconomic background, require specialised products and services.

Universities

In 2010 BES reinforced its involvement with the Higher Education segment, signing new protocols with the Castelo Branco Polytechnic Institute and the Porto Higher Nursing School, and renewing protocols with the Évora University, the Braga branch of the Portuguese Catholic University, and the Trás-os-Montes e Alto Douro University. BES also maintains a strong presence in the healthcare education sub-segment, having signed agreements with the Medicine Faculties of the Lisbon and Porto universities, the Faculty of Medical Sciences of the Universidade Nova de Lisboa and the School of Health Sciences of the Minho University, as well as several protocols with Portugal's main nursing schools.

In addition Banco Espírito Santo established a protocol with the Évora University viewing the creation of a chair on renewable energies that will promote scientific research into energy harnessing and storage technologies. The bank has a marketing and commercial structure dedicated to the higher education students, which operates from 6 branches located within university premises, as well as from other branches conveniently situated close to schools and universities.

As regards the offer to this segment, the newly launched BES Futuro credit line aims to meet the needs of young people not only during their time as students but also as they embark on a professional life.

In 2010 BES reinforced its BES UP Summer Internships programme, which seeks to give higher education students an opportunity to cement the knowledge acquired in their courses, enrich their experience and ease their subsequent entry into the labour market. As the axis of BES's strategy for the higher education segment, in 2010 the BES UP Internships received 2,000 applications, from which 185 future interns were selected (19% YoY increase in the number of both applications and selected applicants). The number of entities willing to provide internships increased to 18 with the inclusion of 4 new entities in 2010.

BES also assists graduate students in their search for a job: the BES / Sapo University Students Employment portal, a joint initiative of BES Group and PT/ Sapo, was significantly improved in 2010 through the introduction of new available facilities and services. Sapo Employment became the leading national employment website. The number of users registered in the website's University segment increased by 93% year-on-year, to 7,500, while job offers made through the site rose by 68%.

Senior Citizens

With the objective of expanding the senior citizens segment's access to financial and non financial services, the offer was reinforced in 2010, namely with the following products:

- No. 1 Account – a pack of financial services which also includes a free of charge health card (with no age limit), medical and technical assistance, travel benefits and discounts on insurance products;

- Mortgage credit – with maturities of up to 30 years (up to 80 years old), no life insurance required, moratorium of up to 10 years.

The products designed for these clients also offer advantageous conditions for access to non financial services, namely medical assistance at home, 24 hours a day, 7 days a week, access to the best private hospitals, tourism and leisure services and private security services.

In 2010 total credit to this segment reached EUR 319 million, a 5% increase on 2009.

New Residents

In 2010, BES Group continued to promote partnerships with immigrants associations and financial institutions in the immigrants' countries of origin, while communicating its specialised offer for the segment. Among others, this offer includes the Family Links card and the BES Express product, which permit the transfer of money between immigrants and their families. In 2010 the new residents phone line, available in Russian, Moldovan and Ukrainian, handled 2,767 calls.

The trend in the social and economic profile of the new residents in Portugal has permitted to offer this segment a set of universal services available to all clients in general.

Microcredit is a good example of the immigrants' adhesion to BES's offer of financial services. Immigrants' associations have been showing increasing interest in this product, accounting for ca. 20% of all applications for microcredit.

Microcredit

microcrédito BES

In the current social and economic text, the Group reinforced its strategy for microcredit, which has the objective of driving the economy and promoting employment by fostering the social inclusion of persons with an entrepreneurial spirit.

These new entrepreneurs and their projects are monitored by the network of account managers of BES's Microcredit Office.

Following the investment made in 2009 in creating the structure, communication and products for the segment, significant progress was achieved in 2010: the loan portfolio reached EUR 3.4 million, permitting to create a total of 396 new jobs.

The Microinvest and Invest + credit lines, developed by the Employment and Vocational Training Institute and jointly promoted with BES, also contributed to this result.

At the same time, the following initiatives were taken in 2010 to increase microcredit activity: (i) a national advertising campaign to divulge the microcredit concept and network; (ii) a page in the Bank's website dedicated to microcredit and microcredit products, featuring success cases of entrepreneurs who resorted to microcredit; (iii) protocols with local organisations; (iv) participation in local employment forums organised by the Employment and Vocational Training Institute in various Portuguese cities.

In addition, the Bank also took part in public information and training sessions organised to explain the concept of microcredit to social solidarity institutions.

Environmental Products

Under a partnership with the World Wide Fund for Nature (WWF), BES launched in 2010 the first "biodiversity" card in Portugal. The card's annual fee, in the amount of EUR 35, plus 0.5% on the amount of each transaction, revert to biodiversity conservation projects led by the WWF in Portugal. In 2010 a total amount of EUR 12,500 reverted to WWF projects.

The work developed by this NGO contributes to the conservation of the natural habitats of species at risk of extinction.

BES Group has taken upon itself the responsibility of exerting a positive influence on its clients, encouraging them to adopt equipment that permit to reduce their energy bill and consequently the emission of greenhouse gases. To this end, the Group promotes the acquisition of the energy certificate. This certificate is issued by specialised firms, and includes the offer of an energy audit report, efficient light bulbs, and recommendations the subscribed power that best suits each case. As a complement to this service, the bank finances the acquisition of solar and photovoltaic panels to streamline energy efficiency and promote microgeneration through renewable energy sources.

In 2010 BES financed the acquisition of this type of equipment by approximately one thousand clients, for a total of EUR 3 million.

3.1.2. *Private Banking*

Through 16 private banking centres in Portugal, the Private Banking area monitors high networth clients, serving a universe of clients with EUR 7.9 billion in assets under management in December 2010.

In this area, focus on customer service is a differentiating factor. The strength of the Espírito Santo franchise, allied to a multispecialist business model with unique characteristics in Portugal and centred on serving the client according to his needs, permits to deliver tailor-made solutions in areas such as investment banking, financial advisory services, private equity investment (provided by ES Ventures), discretionary management, and a range of internationally outstanding investment funds (e.g. the ES Rockefeller Global Energy Fund).

The financial crisis has stressed the need for a closer relationship with the client. To this end, a number of measures were taken, including the definition of an internal sub-segmentation based on the conviction that clients have different needs and requirements according to their specific characteristics, namely their risk profile, the origin of their assets and their professional background. Proximity to the client was also reinforced through a more systematic monitoring of clients' portfolios and support provided to the clients. The recommended asset allocation took into account the consequences of the financial crisis on each client sub-segment. This permitted a significant reduction in exposure to higher risk assets and an increase in lower risk, higher liquidity assets.

Total assets under management increased by 4.6% year-on-year, to EUR 7.9 billion, underpinned by a strong expansion in on-balance sheet customer funds (+54.9% YoY).

3.1.3. Corporate Banking and Institutional Clients

This business area includes activities with large and medium-sized companies, as well as business with institutional and municipal clients. BES Group maintains its long-standing vocation to serve and add value to the activity and initiatives of this important group of clients. The unit serves more than 22,000 clients with a total of EUR 31 billion in credit and funds, through 24 Corporate Centres and dedicated teams of corporate bankers (130 for medium-sized companies, and two teams of 18 corporate bankers each for Large Companies, based in Lisbon and Porto).

BES Group strives to maintain a leading position in the segment, supported by the provision of a specialised relationship banking service, the permanent adjustment of products and services to these clients' specific requirements and a focus on stimulus to innovation and support to the internationalisation of the Portuguese companies, for which it relies on the Group's multispecialist organisation model and international presence.

Support to internationalisation

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 2010 edition;

   - Participation in the "ABC Markets" initiatives promoted by the AICEP, which involved more than 500 entrepreneurs;

2. Promotion of initiatives in strategic markets:

   - Business Missions programme, organised by the Bank since 2006. In 2009 the Bank conducted missions to Angola, China and Algeria.

3. Delivery of excellence service:

   - 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 and network of correspondent banks, has permitted to support companies in various geographies, providing a unique service in the Portuguese banking sector.

The team of international bankers from the International Premium Unit continued to contribute to the successful international expansion of Portuguese and foreign companies based in Portugal. The Unit has been making a strong contribution in terms of new business leads generation, while ensuring an effective coordination between the domestic commercial units and the Group's units abroad.

The recognition enjoyed by BES as the reference bank in supporting the internationalisation of the Portuguese companies was confirmed by its nomination, for the 5th consecutive year, as "The Best Trade Finance Bank" in Portugal, by the Global Finance magazine. In addition, BES Group also reasserted its leading position in the trade finance domestic market, with a share of 27.2%.

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 78.9%.

Stimulus to Innovation

In 2010 BES took a vast set of initiatives to further reinforce its support of Innovation and Entrepreneurship:

- creation of specialised commercial team dedicated to supporting innovative companies;

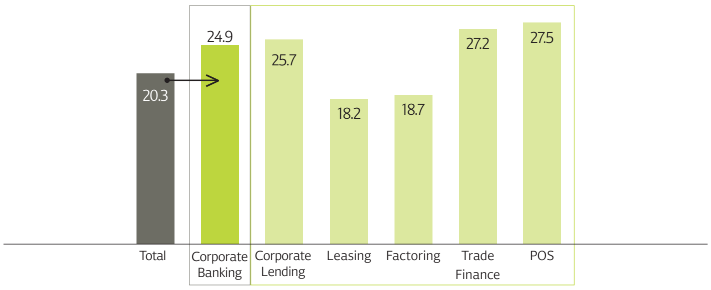
- creation of a model designed to provide both financial and development support to innovative companies throughout their life cycle;

- organisation, together with the IAPMEI, of a series of thematic workshops addressed to companies with the 'SME Leader' status. Under the tagline "Leading for the Future", these seminars focused on fundamental management concepts in key areas for business development. In 2010 approximately 2,000 entrepreneurs participated in the workshops;

- launch in 2011 of an Advanced Management and Innovation Programme for Entrepreneurs, jointly organised with the Portuguese Catholic University. The aim of this programme is to give entrepreneurs the tools which will make it easier for them to move successfully from an innovative idea, to company formation, to the market and finally to internationalisation.

Corporate Banking Market Share

(%)



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 (24 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 2010, namely:

- in financial advisory services, an investment banking service for medium--sized companies, lifted revenues by 10% year-on-year;
- in the area of human resources solutions, sales of Risk Life Insurance products performed well: the respective portfolio grew by 27%, with revenues increasing by 54%;
- in the cross-selling of non-life insurance products continues to provide a very good complement to the banking offer, leading to revenue growth of 13%;
- in the renting, which 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 13% 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 67.5%.

The constant updating of a database of potential customers with a good risk profile continues to prove a priceless customer-acquisition tool, which, allied to an innovative and competitive offer adjusted to the clients' needs, led to the acquisition of 678 new active clients in 2010.

At Iberian level, client acquisition and business development are supported by close cooperation between domestic and Spanish commercial networks: from a potential universe of 2,176 Iberian companies with good risk profile, ca. 50% are BES Group clients.

A new team of 3 Iberian bankers created in 2011 will further promote business between the two Iberian networks.

The Group maintained its strong commitment to supporting the Portuguese firms, holding a 19% share of total loan applications analysed by the mutual guarantee entities within the scope of credit granted to the small and medium-sized companies (SMEs) under the "PME Investe" credit lines programme. BES has approved more than EUR 2.1 billion in loans to the Portuguese SMEs since the creation of the programme.

As part of its strategy of support to the SMEs, BES Group, under a partnership with multilateral banks, also grants co-financed loans to Portuguese firms. These credit facilities, provided under advantageous conditions (longer maturities), are an important source of credit for the Portuguese business community, permitting its capitalisation and growth.

Over the last few years the accumulated amount of credit granted under credit facilities jointly negotiated with the multilateral banks reached more than EUR 1.2 billion.

In 2010 BES entered an agreement with the European Investment Bank (EIB) concerning the allocation of a EUR 175 million global credit facility ('Loans for SMEs I') to finance small and medium sized companies. This credit facility is intended to finance not only SMEs but also municipal entities or others that develop projects in the areas of energy efficiency, environmental protection, renewable energy, or investment in research, development and innovation.

At the end of 2010 the EIB approved the allocation to BES of a new credit facility in the amount of EUR 200 million. This new facility further reinforces the Group's leading position within the Portuguese private banks with access to the EIB global loans.

The Bank agreed with the Council of Europe Development Bank (CEB) on a EUR 100 million global credit facility intended to part finance investments by public authorities and/or private entities in projects that contribute to improve living standards and social cohesion in Portugal, and promote the use of renewable energies.

BES Express Bill

Given the current economic situation, the "BES Express Bill" solution, launched in 2010, proved to be an important source of liquidity to ease companies' cash management constraints, as well as generating confidence in dealings between companies due to BES's guarantee of payment. By giving the buying company greater bargaining powers with the supplier, this solution also allows it to negotiate better payment conditions (longer payment terms and discounts). Suppliers, in turn, have BES's guarantee that they will be paid on time, at no extra cost, while also benefiting from automatic advance payment, with full flexibility and lower costs than traditional credit. In its first year of implementation, more than 2,500 companies subscribed to the "BES Express Bill", with more than EUR 1.0 billion in facilities approved.

BES expressBill

Capital Growth Fund

The BES PME Capital Growth venture capital fund, launched in 2009, is aligned to BES Group's strategy of supporting the SMEs. It has an allocation of EUR 120 million, and was fully subscribed by BES Group. The objective of the fund is to promote the recapitalisation and restructuring of SMEs in various business sectors, which have a viable business model and the potential to grow. The fund supports these companies by acquiring a stake in their share capital or through other available instruments that ensure their financial sustainability.

Up to December 2010 the fund had invested EUR 52 million in companies from different sectors, while also assisting them in pursuing their business strategy.

In addition, the Group's partnership with mutual guarantee entities also permits to offer competitive financing solutions to the SMEs.

"Medida Solar Térmico" solar thermal programme

In 2009 the Portuguese government entered an agreement with several banks to launch the "Medida Solar Térmico" programme, an incentive programme for the acquisition and use of renewable energy equipment by SMEs, private social solidarity institutions and non-profit sports institutions.

BES strongly endorsed this programme, with 112 applications for funds being referred through the bank, corresponding to total credit of EUR 2 million in 2010.

BES Environment and Energy

BES Environment and Energy offers financing solutions to small and medium companies that will help them reduce their impact on the environment. The purpose of these solutions is to finance the acquisition of eco-efficient equipment and renewable energy production and micro-generation systems, the replacement of companies' car fleets by vehicles that emit less CO_2, or the services of environmental consultancy firms that recommend the adoption of eco-efficient equipment permitting to reduce companies' energy bills through. This product encourages companies to be more accountable for their impact on the environment, without compromising their future profitability.

The role of venture capital in BES Group

Espírito Santo Ventures invests through venture capital funds in companies that develop innovative business products and concepts targeting the international market.

One of its funds, Espírito Santo Ventures III, had its second closing in June 2010, with more than EUR 75 million committed capital. The fund will invest in the Clean Tech, Healthcare, Wellbeing and IT areas.

In 2010 the venture capital funds managed by Espírito Santo Ventures continued to invest in innovative companies. The company has already invested ca. EUR 23.5 million in 15 companies. Its Espírito Santo Ventures III fund, for example, invested in Magpower, a Portuguese company that developed one of the most competitive high concentration photovoltaic systems ever designed, with the potential to bring solar energy costs increasingly closer to fuel energy costs. Investment in Magpower, to be made by stages, will reach up to EUR 7 million.

In 2010 Espírito Santo Ventures prepared the launch of two new funds, now in the final phase of approval by the CMVM:

- "Inovação e Internacionalização" is a EUR 10 million fund intended to support the internationalisation of Portuguese companies with innovative projects;

- "ISTART-I" is a EUR 5 million fund jointed promoted with Lisbon's *Instituto Superior Técnico* (IST). The objective of the fund is to support technology-based business projects with high growth potential, developed by students, lecturers or researchers from IST or from other Portuguese universities and research institutes.

Espírito Santo Ventures' support to innovative companies through venture capital funds has generated substantial social and economic gains. As regards the Portuguese companies in which it invested, from the beginning of investment to the end of 2010 their number of employees more than doubled (rising from 2,400 to more than 5,300) and their sales grew from EUR 134 million to EUR 524 million (a near four-fold increase).

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.

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 in their internationalisation process, 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.

The International Premium Unit, now in its second year of activity, was instrumental in the success of the strategy of supporting the internationalisation of the corporate clients, having fully and permanently monitored 650 clients from 130 different business conglomerates in 2010.

Since its creation, the work developed by the Unit has, in coordination with the entire corporate area at national level, generated 2,200 business leads as it supported and advised on the internationalisation processes close to 1,000 clients.

Thanks to its commercial approach, the Unit has achieved significant results:

- The 130 business conglomerates directly monitored by the Unit increased their financial involvement with the Bank by 14% over 2009.

- Earnings from trade finance transactions increased by 40.3% 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. ES 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. The close links and spirit of partnership developed with the municipalities and institutional clients permit to implement client acquisition actions addressing the employees of these institutions.

Following the tornado that in December 2010 caused damages totalling approximately EUR 18 million in the municipalities of Tomar, Sertã and Ferreira do Zêzere, BES opened a subsidised credit line to help the affected families recover their lost property.

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 2010, Banco Espírito Santo extended 45 loans to social solidarity institutions for an overall amount of EUR 28 million.

The Group also provides financial services, not only to these institutions, but also to persons and institutions that cooperate and interact with them, namely employees, voluntary workers or beneficiaries of the institutions.

In 2010 the Bank provided financial support to the creation of an Advanced Training Course on Private Social Solidarity Institutions (IPSS) Management, taught at the Lisbon Catholic University. This initiative was inspired by the need, which IPPS officials felt and communicated to BES, to receive practical and vocational training on IPSS management.

The Bank continued to support the Pares and Modelar programmes, whose objective is to improve and extend the national network of social and continuous care equipment by financing projects that are submitted and approved by them.

Financial involvement with these institutions totalled EUR 234.6 million in 2010, a year-on-year increase of 11%, with total credit granted rising by 32%, to EUR 22.7 million.

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 transnational scale.

Angola

Banco Espírito Santo Angola (BESA) is currently the second largest privately owned commercial bank operating in Angola, a position achieved through a consistently implemented strategy focused on strength, confidence and the excellence of the service provided to the client. BESA's performance has been acknowledged by prestigious international institutions, as referred in more detail in page 19 of this report.

In the course of 2010 BESA (i) completed the transfer of its IT systems from Lisbon to Luanda; and launched the direct channels, namely the BESAnet internet banking service enabling transactions; (ii) launched the "BESA Collection" credit cards, targeting affluent and corporate clients; and (iii) introduced a series of new savings products.

BES Angola has two firms dedicated to asset management: BESAACTIF, Sociedade Gestora de Fundos de Investimento (the first fund management firm to operate in Angola) that manages a closed-end real estate investment fund, with a second fund pending the authorisation of the Angolan authorities; and BESAACTIF, Sociedade Gestora de Fundos de Pensões, a pension fund manager that started offering its first open-ended defined contribution pension plan (FP BESA Opções Reforma) in 2010. In addition, BESA is ready to launch leasing products as soon as the necessary authorisation in issued by the Central Bank of Angola.

Spain

BES Group's Spain Branch focuses its activity on the areas of corporate banking, affluent and private banking.

The Branch had a positive performance in 2010, despite the difficult economic context in Spain. These were the main highlights of the year: (i) business consolidation at the level of both international transactions and customer funds (on- and off-balance sheet); (ii) sales efforts produced a 9.7% year--on-year increase in client acquisitions; (iii) continued reinforcement of the prudent credit risk management, implying a provisioning cost for the year of ca. 89 basis points.

Spreads increased significantly, partially neutralising the absence of gains from declining interest rates, as happened in 2009. Margins on liabilities were under pressure due to strong competition over customer funds, driving up the cost of funding.

In affluent and private banking, the Branch focused 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 allows the execution of 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.

United Kingdom

BES London Branch concentrates its activity in wholesale banking in the European market. As a specialised credit unit, the Branch acts with selectivity and maintains a conservative risk management policy. Under the current adverse climate in the financial markets, the volume of funds raised declined, being particularly penalised by the successive downgrades of the ratings of the Portuguese Republic and Portuguese banks occurred since April. The Branch's focus on the implementation of a deleveraging plan permitted to reduce the loan book by 7%. In view of the adverse conditions, and also to meet the credit portfolio resizing objective set for the international area, the balance sheet was adjusted, with net assets decreasing by 46% year-on--year. The Branch successfully implemented a new information system, which became operational at year-end.

United States of America

In the course of 2010 the performance of Espirito Santo Bank was severely penalised by the difficult situation lived in recent years in South Florida, where the problems caused by the mortgage credit crisis have not yet been surpassed. Risk levels in the real estate business, and in particular regarding commercial property, are still too high, and therefore mortgage credit dropped by 3%, to USD 375 million. Given this increased perception of risk in the credit markets, the Bank maintained a conservative stance throughout the year. Liquidity was quite high, with customer deposits (USD 463 million) representing 123% of customer loans. The broker/dealer ES Financial Services increased brokerage revenues by 17%, confirming a five-year rising trend that is supported by a diversified and strong offer of products and services targeting the financial needs of the clients. Assets under management reached USD 1,196 million, a year-on-year increase of 13%.

BES New York Branch concentrates its activity in wholesale banking, mainly in the US and Brazil. The restrictions on market liquidity and difficulties in access to funding, which became increasingly acute following the successive downgrades of the Portuguese Republic's ratings, had a negative impact on the placement of the certificates of deposit and commercial paper programmes during the year. These adverse market conditions required increased prudence in business development and focus on risk monitoring and management. The credit portfolio registered a 31% reduction, which is in line with the deleveraging plan implemented.

France

In 2010 Banque Espírito Santo et de la Vénétie had a good performance in the area of real estate credit. In addition, corporate banking, structured finance, and management activities, the business done in the area of the audiovisuals and cinema and also the activity of the mandataires de justice department (distressed businesses) also contributed to the year's gross operating income.

Libya

Aman Bank focused its activity on the following areas: (i) development of commercial activity, reinforcing specific skills and implementing an ambitious commercial plan; (ii) implementation of measures to minimise operational risk, reinforcing the use of internationally recognised methodologies in the areas of compliance (KYC and AML), risk assessment, credit recovery, transactions and accounting; and (iii) leveraging on the synergies enabled by the integration of services within BES Group, namely in the areas of trade finance (import documentary credits, guarantees and remittances) and transactional banking (credit cards, ATMs and POS). Although 2010 was the start-up year of the strategic partnership established between Aman Bank and BES Group, the bank posted positive results.

China

Banco Espírito Santo do Oriente (Macao) operates in the Macao Special Administrative Region, which is expected to post two-digit growth in 2010, and similar growth rates in 2011 and 2012. The region's economic growth is based on the continuous development of the tourism and gambling/leisure sectors, and the implementation of several major infrastructure works. The Bank continued to be very selective and rigorous in loan granting, having established the following priorities: attracting funds from local and regional clients; placing a CP programme (Funding Programme) in Southeast Asian; developing trade finance activities; and supporting the expansion of Portuguese companies into the Asian markets. Despite the difficult access to the markets and strong competition over customer funds, customer deposits registered a small increase of 1%.

Cape Verde

BES Cape Verde Branch focuses on corporate banking activity, public-private joint infrastructure investments (ports, roads, electricity and water) and the tourism sector. Customer deposits increased during the year, while customer loans declined, as foreseen in the amortisation schedule. At the beginning of the second half of 2010 Banco Espírito Santo Cabo Verde inaugurated its premises, following the Ministry of Finance's order authorising the incorporation of a new bank in the 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.

ESPIRITO SANTO INVESTMENT BANK

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.

In 2010, due to a strategically advantageous geographical positioning and reach, the investment banking activity benefited from exposure to developing or recovering markets, namely Brazil, Angola, Poland and the United States, which to some extent cushioned the greater difficulties felt in Portugal and Spain. Even so, activity during the year was conditioned by perceptions of Portuguese risk and their impact on the funding conditions of the Portuguese banks.

In response to the extremely adverse economic scenario, investment banking focused its activities on (i) reinforcing international expansion, (ii) increasing the weight of advisory and intermediation activities, which are less capital and liquidity consumptive; and (iii) achieving credit portfolio rotation. This approach was quite successful: banking income increased by 13.1%, to EUR 258.9 million, with commercial banking income growing by 30.9%, to EUR 230.8 million. The international area results confirmed once again the success of the internationalisation strategy, with international banking income rising by 30.9%, and contributing with 65% to consolidated banking income.

BES Investimento's ambition to expand its international activity and achieve increasing international visibility led it to acquire a 50.1% stake in Execution Noble. The transaction was announced at the beginning of the year and concluded in November. This acquisition reinforces the Group's presence in London and permits to expand its scope of activities to Hong Kong and India, thus widening its international distribution capacity and exposure to new fast growing markets.

For the geographies where BES Investimento already operates, its strategy is one of consolidation.

In Portugal, the Bank maintained the leading position in equity trading in the NYSE Euronext Lisbon, with a market share of 12.4%, and led several important capital markets transactions, namely the structuring and arranging of the EUR 775 million financing of the concession for the Poceirão-Caia high-speed railway project, considered by Project Finance Magazine the "European High Speed Rail Deal of the Year". BES Investimento once again ranked in first place in the Portuguese M&A market, by number of operations. It also remained the undisputed market leader in the Portugal-Spain cross-border segment, reinforced its position as Iberian leader in mid-market transactions and consolidated its role as the reference bank in the Portugal-Spain-Brazil axis.

In Spain, BES Investimento maintains its resolve to feature 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. Despite the unfavourable economic environment, the bank maintained the 3rd position in the ranking of the Spanish brokerage market, and reinforced its relationship with the main players in the infrastructures and energy sectors, where it benefits from a particularly strong position as financer and advisor. In M&A activity, 2010 was actually one of the best years for the Bank, which closed important deals, mainly in the energy sector, where it benefited from the ongoing restructuring. In project finance, BES Investimento also led a number of large operations, namely the EUR 1.3 billion financing to Escal for the construction and operation of an offshore subterranean gas storage facility, north of Vinaroz, which was classified by Project Finance Magazine the "European Downstream Oil & Gas Deal of the Year".

In Brazil, the aim of BES Investimento is to assert a position 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 and reinforcing its existing business lines. Among other important operations, BES Investimento participated in Portugal Telecom's sale of its 50% stake in Brasilcel, a holding company, and acquisition of a strategic holding in Oi Group; in Petrobrás's capital increase (the largest share offering ever in the world); and in Bank of Brazil's capital increase. It also provided advisory services to project finance transactions in the energy and transport infrastructure sectors.

BES Investimento is also developing other business areas in this market, namely wealth management, through Espírito Santo Serviços Financeiros DTVM, and private equity activities, through 2bCapital S.A., a joint venture with Banco Bradesco.

In the United Kingdom, BESI's project finance activity was distinguished by the Project Finance Magazine with the following awards: (i) "African Downstream Oil & Gas Deal of the Year", for its leadership of the USD 2.6 billion financing to the Egyptian Refining Company for the construction of a refinery in Cairo; "European Airport Deal of the Year" for its leadership of the EUR 716 million financing of the expansion, development, operation and maintenance of Saint Petersburg' Pulkovo Airport (Russia); and "European Midstream Oil & Gas Deal of the Year" for its leadership of the EUR 3.9 billion financing of the construction, operation and maintenance of phase I of the Nord Stream pipeline, which will link Russia to Germany across the Baltic.

In the United States, BES Investimento has been developing project finance and other structured finance activities, and is setting up 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 strong capital market activities developed in Iberia; 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. An important step was already given in 2011 towards achieving this goal, namely the opening of offices in Mexico city, which will give the Bank access to the second largest market in Latin America.

During the year the Bank led 10 project finance operations, 6 of which in Latin American countries (Colombia, Chile and Mexico). Of these, two were distinguished by the Project Finance Magazine with the following awards: (i) "Latin American Power Deal of the Year" for its leadership of the USD 460 million financing of Abengoa Cogeneración Tabasco for the construction of a 300 MW cogeneration plant in the State of Tabasco (Mexico), and (ii) "Latin American Upstream Deal of the Year" for its leadership of the USD 225 million financing of Rubicon Drilling Services for the construction of an oil platform in the Gulf of Mexico.

Poland and other Central European countries offer strong business development prospects on account of their ongoing privatisation programmes, which include some sizeable operations, and the development of large infrastructure projects in the area. In order to offer its clients an integrated range of investment banking products, BES Investimento has been creating new business areas in the Polish market, namely launching fixed income activities in 2010. In project finance, the Bank led a financing operation to EDP Renováveis, and provided advisory services in two other projects. In Capital Markets, BES Investimento asserted a position as an important player in the Warsaw Stock Exchange, closing the year in 13th place of the brokers' ranking, with an accumulated share of 2%. The bank also intervened for the first time in the Polish primary market, participating in the Warsaw Stock Exchange's Zloty 1 IPO (the second largest operation carried out in 2010) and leading Kredyt Inkaso's secondary offering.

In Angola, the bank is pending the authorisation of the Bank of Angola to open an investment bank incorporated under Angolan law, and also intends to develop capital market activities, through a broker.

Assessment of Environmental and Social Risks in Project Finance

In 2010 BES Investimento was involved in 36 project finance operations, all of which were subject to a social and environmental risk analysis prior to approval.

Supported by the ESI Sustainable Finance Toolkit (BES Investimento's software application to assess environmental and social risks), this analysis assesses risks against the benchmarks provided the Equator Principles and permits to identify areas for mitigation throughout the duration of the financing and development of the project. This preliminary risk analysis also enables the identification of adverse scenarios that might impact the project's development and the success of the financing operation.

Following the risk classification, the next step is to obtain from the project's promoters evidence of compliance with the local legislation and with the social and environmental requirements identified in the preliminary analysis. To this end, the Group recruits external experts to verify and provide independent assurance that the project's technical, environmental and social characteristics meet the environmental and social standards of the International Finance Corporation and the requirements of the Equator Principles.

From all the projects financed in 2010, 16 were renewable energy projects, to be developed in six different countries, in three continents. These projects represented a financial commitment of EUR 425 million, corresponding to 30% of the total amount committed to project finance.

In Portugal BES Group participated in the financing of five renewable energy projects, thus reinforcing its contribution towards the combat against climate change, one of the main focal areas of its approach to sustainability. By financing these projects, the Group contributes towards the achievement of the national target of energy production from renewable sources, and consequently towards the reduction of Portugal's energy dependency and compliance with Kyoto's targets. In line with its commitment to the Kyoto Protocol, in 2010 the Bank financed the construction of a hydroelectric plant in Chile, which was classified as a Clean Development Mechanism[1] (CDM) project. This project, while allowing Chile not to increase its CO_2[2] emissions from electricity production, also permits to issue tradable carbon credits in the regulated carbon market.

The **Equator Principles** were launched in 2003 by 10 financial institutions, in partnership with the International Finance Corporation, a member of the World Bank Group.

The Equator Principles
A framework for financial institutions to manage environmental and social issues in project financing

In 2010 BES Group was one of the founders of the Equator Principles Association, thus qualifying as an Equator Principles Financial Institution (EPFI) and reaffirming its commitment to thoroughly apply the principles to all projects financed by the Group. The association was created with the objective of reviewing the risk analysis principles and methodologies of the subscribing institutions in order to improve them, widen the principles' scope of application and reinforce their effective application.

3.4. Asset Management

This segment includes all the asset management activities of the Group, essentially carried out by Espírito Santo Activos Financeiros (ESAF), through its specialised companies, within Portugal and abroad (Spain, Luxembourg, United Kingdom, Angola, and Brazil). ESAF's product range covers mutual funds, real estate funds and pension funds, besides providing discretionary and portfolio management services.

Assets under management totalled EUR 18.8 billion in December 2010, corresponding to a year-on-year reduction of 9.7%.The reduction of assets under management reflects the strong decrease in money market funds in Portugal and Spain, not compensated by the growth of special investment funds launched in Portugal and the trust fund in Spain.

In the international operations and as part of its growth strategy in the asset management business in Spain, BES Group acquired the entire share capital of Gespastor SGIIC, a Spanish asset management company, from Banco Pastor. This acquisition allowed to reach ca. EUR 3 billion in assets under management (mutual funds, pension funds and SICAVs) and to gain access to the branch network of Banco Pastor.

In Luxembourg, the volume of assets under management remained flat. BES Group launched the first Exchange Traded Fund (ETF) on an Iberian index: ESAF NYSE Euronext Iberian ETF. This product provides its private and institutional subscribers with exposure to the main Iberian firms by investing in just one security, while offering the advantages of trading simplicity and diversification.

In Brazil, as in the previous year, there has been a significant growth in assets under management (+43%). The Group has agreements with eleven regulated fund distribution firms.

In Angola, the Group launched a pension fund called FP BESA Opções Reforma.

Mutual Funds

Total assets under management reached EUR 4,460 million at the end of 2010. The year was marked by a focus on permanent adjustment of the offer to market needs, leading to the launch of several new funds. Hence following the successful launch of the ES Rendimento funds in 2009, the Group launched another three funds with similar characteristics, and obtained the authorisation to launch another two.

In Luxembourg, BES Group has several funds under management targeting clients with a wide range of risk profiles. At the end of 2010 the aggregate volume in these funds was EUR 702 million: (i) the ES Fund, which has 11 compartments (shares and bonds), reached EUR 361 million; (ii) the Global Active Allocation Fund, targeting individual clients and institutions, with volume of EUR 75 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 the Espírito Santo Rockefeller Global – Energy Fund, created 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, reached EUR 79 million. In 2010 the Group launched the first Exchange Traded Fund (ETF) on an Iberian index, the ESAF NYSE Euronext Iberian ETF.

1 The Clean Development Mechanism is one of the flexibility instruments created by the Kyoto Protocol to contribute to the process of reduction of greenhouse gases emission.
2 Carbon and CO2 always refer to equivalent carbon emissions

Real Estate Funds

Real estate funds under management increased by 8.8% in 2010 as a result of a 37% increase in assets of the *Fundo de Investimento Imobiliário Aberto Logística* Fund, and the stabilisation of assets of the *Fundo de Investimento Imobiliário Aberto Gespatrimónio Rendimento* Fund.

Overall volume under management in real estate funds was EUR 1,374 million, represented by 30 mutual funds, of which two - *Gespatrimónio Rendimento* and Espírito Santo Logística – are open-end and have a total volume in excess of EUR 1 billion. Three new closed-end mutual funds for private subscription were launched during the year.

Pension Funds

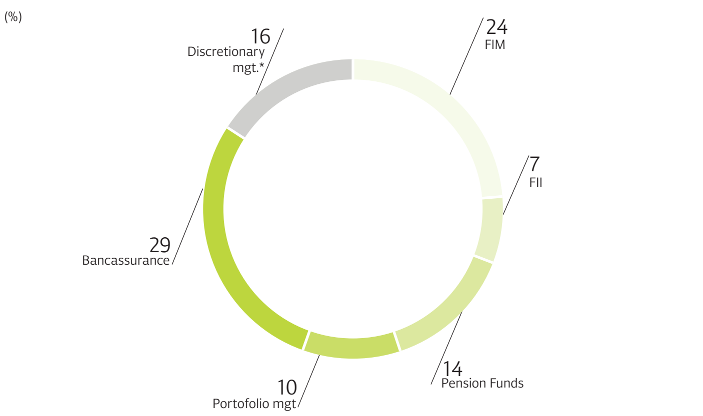
In Pension Funds, assets under management totalled EUR 2,655 million, representing a year-on-year drop of 2.5%.

An increase of more than 20% in assets under management of open-end pension funds should be stressed.

Portfolio Management

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 1,866 million at the end of 2010, corresponding to a year-on-year decrease of 29.2%.

Asset Management: Product Breakdown



* Includes discretionary management of institutional, individual and other clients

Responsible Investment Funds

BES Group manages and sells responsible investment funds to private and institutional investors with a capital allocation strategy that envisages investment in such funds.

CO_2 NEW ENERGY FUND

Responsible investment is an investment strategy that focuses on companies, projects and businesses that apply and report good social, environmental and corporate governance practices.

European Responsible Consumer Fund

The European Responsible Consumer Fund was created by and is managed by ESAF. The Fund invests in European equities and bonds issued by European States. Besides complying with other criteria required for inclusion in the FTSE4Good Europea Index, the fund's strategy excludes investments in companies involved in the production or sale of anti-personnel mines and tobacco, that violate human and labour rights, or employ child labour. The European Responsible Fund only invests in listed companies that are included in the FTSE4Good Europe Index.

The fund, developed in 2003, has the clear objective of attracting investors who wish to conciliate responsibility with profitability. Sold by BES Group's branch network and private banking centres, it represents 13% of all international equities funds managed by ESAF. In 2010 the fund was worth EUR 26 million, and its rate of return was 7.65%.

Espírito Santo Infrastructure Fund

In 2010 BES Group continued to invest in the Espírito Santo Infrastructure Fund (ESIF), a venture capital fund managed by Espírito Santo Capital (ES Capital), a venture capital firm of the Espírito Santo Group. In 2010 this fund represented 48% of the funds under management by ES Capital.

This fund has capital of EUR 95.7 million of which up to a maximum of 66% may be invested in renewable energies. Up to December 2010 the fund invested ca. EUR 17.9 million in renewable energy projects, from a total committed capital in excess of EUR 59 million.

Main investments in renewable energy projects made by the fund in 2010:

- Construction of a 23MW wind farm in Portugal, a total investment of EUR 30 million, of which EUR 9 million corresponded to own funds investment (EUR 3.6 million of BES Group's own funds);
- Wind farms in Poland for a total of 84MW, corresponding to a commitment of up to EUR 9 million in own funds investment ;
- Construction of a EUR 5 million 1.3MW photovoltaic park in Portugal that went into production in the summer of 2010, with total own funds investment of EUR 1.3 million.

Espírito Santo Infrastructure Fund also holds a 6.4% stake in Iberwind, in which ES capital also holds a 1.6% stake. Iberwind is the leading wind market firm in Portugal, with 681 MW capacity in operation.

The fund participated with 45% in a consortium formed to bid in a wind tender launched by the Regional Government of Galicia (Spain), having been awarded 45MW to be installed as from 2012 in the Lugo region. The project will represent a total estimated investment of EUR 60 million.

Espírito Santo Capital also has a direct holding of 32% in Enerwood Portalegre, a company that holds licences for the construction and operation of a 10 MW forest biomass power station, and a 17.5% stake in Probiomass, which holds a license to build and explore an 11 MW biomass power station.

Responsible Investment Funds – Banco Best

Through Banco Best, BES Group sells responsible investment funds with a diversified investment strategy and geographic allocation. Total subscription by Banco Best clients of its range of 110 responsible investment funds reached EUR 10 million in 2010, which represents a year-on-year increase of 7%.

Climate change and responsible investment

In order to use financial investment as a means to combat climate change, in 2010 the Group continued to invest in projects that translate into clear benefits for the environment, such as:

- EUR 3.6 million investment in the New Energy Fund, a Portuguese special investment fund that invests in renewable energy companies and projects;
- EUR 11 million stake in the Luso Carbon Fund (LCF). The LCF invests in renewable energy, energy efficiency and waste treatment projects within the scope of the Kyoto Protocol;
- 11.9% stake in Sociedade Floresta Atlântica, a company that buys or rents forest which it operates in accordance with sustainable management principles.

3.5. Outlook for BES Group. Main risks and uncertainties

In 2011 the global economy should continue to see diverging growth paces across the various regions. While strong growth is expected for the main emerging markets, the main advanced economies should post moderate growth, with the peripheral Euro Area countries showing low or even negative growth. In particular, a cooling down of growth is projected for the United States and the Euro Area, mainly as the result of the gradual withdrawal of fiscal stimuli to activity, the end of the stock replacement cycle, and clearly restrictive fiscal policies.

Although the rise in food prices poses a risk to inflation, the persistence of high unemployment and economic growth at around potential should keep inflation low in the US and the Euro Area. In these circumstances the monetary policy is expected to maintain an exceptional nature in these two economic areas, particularly in the US. Nevertheless, market trends could determine a slight increase in benchmark interest rates in the Euro Area, especially as from the second half of the year.

As regards the Portuguese economy, 2011 will be conditioned by the austerity policies implemented and the need to achieve a very significant reduction in the public deficit. This should lead to a certain retraction in public and private consumption and investment, and in turn cause a contraction of GDP, which could drop by 1.3%. Overall, the evolution of the economy will heavily rely on the performance of exports, which hopefully will benefit from the growth of the advanced and emerging economies, as was the case in 2010. Still, access to the debt markets on the part of the peripheral Euro Area countries should remain inefficient and very selective. In this context the Portuguese financial system is expected to reinforce the action guidelines already put in place in the second half of 2010, namely viewing the reduction of activity and lower dependence from the financial markets.

BES Group will pursue its deleveraging programme, which entails selling part of its international credit portfolio and slowing down domestic portfolio growth, while at the same time implementing a strategy aimed at attracting customer funds, namely deposits, and making an effort to diversify international funding. This should permit to gradually reduce dependence from financing obtained through the issuance of debt in the capital markets, restoring a balance between the Group's credit portfolio and its funding, which will be mainly ensured by the deposits portfolio. As to the development of the international area, namely in Brazil and Angola, it should advance in line with the economic expansion projected for these two economies. Credit is expected to grow in tandem with customer funds, the latter increasing its contribution to the 2011 consolidated earnings.

In the investment banking business, BES Investimento, following its recent acquisition of Execution Noble, will continue to consolidate its activity in the markets where it already operates and expand into other geographies showing favourable conditions for the Bank's development, with the aim of increasingly establishing a position as a reference international investment bank.

Main risks and uncertainties that may affect the activity and results of BES Group in 2011:

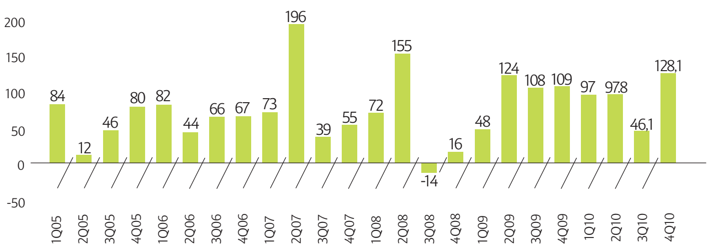
- volatility and low confidence levels in the international markets;
- in the current context of scarce liquidity, the need to increase funding obtained from clients should continue to exert pressure on prices and on the net interest margin;
- credit granting should be limited the domestic area, and conditioned by the capacity to attract customer funds, in the international area;
- pursuance of the deleveraging programme initiated in 2010, namely through the sale of international assets;
- the restrictive measures implemented in Portugal to reduce the public deficit can have a negative impact on overdue loans, thus calling for a reinforcement of credit provisions, particularly at domestic level;
- based on expectations of strong growth in the emerging economies, the Group's units in Angola and Brazil will predictably increase their contribution to results;
- BES Group should make new issues of hybrid capital instruments eligible as Tier I, reinforcing its capitalisation levels.

4 Financial Management and Capital Markets

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

Capital markets results (QoQ)

(euro million)



2010 was divided into two distinct periods.

The first half of the year was marked by Greece's sovereign debt crisis and culminated with this country's request for assistance from the IMF and the European Union. The turbulence that cropped up around the debt of a European Union country led to speculation about Greece defaulting on its debt, and even called into question the viability of the Euro Area's currency itself, which as a result strongly depreciated (by ca. 15%) against the dollar. The main equity markets fell, the medium and long term interest rates of the core countries declined, and the main credit indices naturally deteriorated, translating an increase in spreads.

In the second half of the year, although the debt crisis continued to affect the countries in the periphery of the Euro Area, leading Ireland to seek assistance from the European Financial Stabilisation Fund in the last quarter, the behaviour of the various categories of financial assets was quite different. Concerns about the continuity of the Euro Area abated, which, together with an improvement in the economic data for the main world economies, notably the US economy, contributed to drive up the Euro, the main equity indices, medium and long term interest rates, and in some cases, as in China, also the benchmark rates. Despite the events in Ireland, the main credit indices also improved, and spreads narrowed.

BES Group posted very positive capital markets results, in line with its consistent performance over the last few years (the Group only had negative capital markets results in the last quarter of 2008). This year the positive results achieved were underpinned by the positions taken not only in the interest rate market, but principally in the foreign exchange market (where the Group took advantage of the devaluation of the euro against the currencies of the emerging markets and especially of the Brazilian real), and the equity market (through Portugal Telecom's early dividend payment) The credit area was the most penalised by the crisis affecting the Euro Area's peripheral countries, but even so a cautious approach and rigorous risk analysis allowed it to post a very small negative result.

In line with a prudent liquidity management policy - of foremost importance in the recent context of 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.

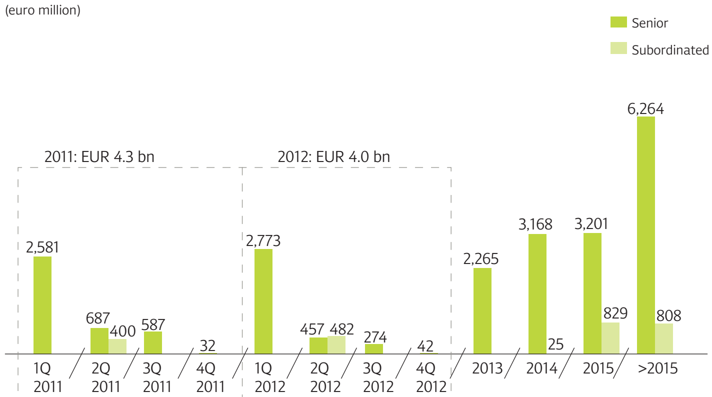
The year 2010 was marked by the sovereign debt crisis in the peripheral Euro Area economies, with effects felt from the beginning of the year and quickly spreading to the financial institutions of these economies, resulting in a sharp reduction in liquidity and a general increase in credit spreads. In fact, the economic stimulus measures adopted by most governments in 2009, following the onset of the financial crisis, led to a general rise of national fiscal deficits. The market feared the risk of sovereign debt default by some European countries, especially by Greece, triggering a sudden increase in the credit spreads of those countries, with direct impact on financial institutions.

Despite the climate of instability and increasing difficulty in accessing the international markets that widely affected all Portuguese issuers, BES Group was able to take advantage of the limited windows of opportunity that occurred in the first four months of the year, by accessing the capital market with the following debt issues, placed with institutional investors:

- January: EUR 750 million 5-year senior debt, under the Euro Medium Term Notes programme;
- March: USD 500 million senior note placed with institutional investors by BES Investimento subsidiary in Brazil;
- April: USD 950 million of exchangeable bonds, linked to the common shares of Banco Bradesco;
- May: EUR 500 million of exchangeable bonds, linked to the common shares of EDP.

Maturity Profile 2010 – 2015

(euro million)



The market turmoil and financing difficulties worsened substantially following the ratings downgrade of Greece, Portugal and Spain. On April 27th Standard and Poor's downgraded the ratings of the Portuguese Republic short-term from A-1 to A-2 and long-term from A+ to A-.The downgrade of Portugal's short-term sovereign rating had a significant impact on the Portuguese financial system, where the short-term financing was substantially reduced and led to the downgrade of banks' ratings. BES's ratings were downgraded to the same level as the Portuguese Republic's - long term from A to A- and short term from A-1 to A-2.

Yielding to increasing pressure from the financial markets, in May Greece was forced to ask for financial aid from the EU and the IMF. The announcement of this bail-out and measures to reduce public deficits – meanwhile announced by the most pressured economies – was not enough to calm markets, which continued to test new highs in credit spreads, not only for Greece, but also for Spain, Portugal and Ireland.

Markets focused their attention on the peripheral economies' solvency and on the cohesion of the Euro Area itself, including the possibility of other countries having to seek assistance from the EU and the IMF, as Ireland would do in November.

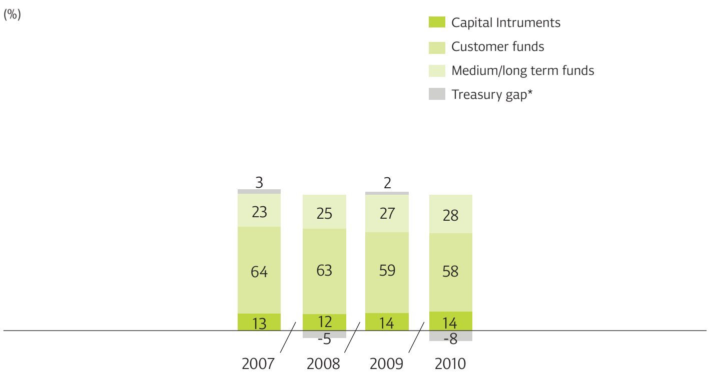
High-risk aversion to the peripheral countries led to lower liquidity available in the market for these countries. This situation was further aggravated by successive downgrades from the rating agencies, which once again cut the Portuguese banks' ratings in July.

In this context, access to rediscount operations with the ECB continued to be instrumental, while the short and medium term markets were inaccessible. Nevertheless, the Group managed to reduce its net borrowing position at the ECB by EUR 2.1 billion during the second half of the year: from EUR 6.0 billion at the end of June to EUR 3.9 billion at the end of December. Since August the Bank has been consistently reducing its dependence on the ECB by selling assets not correlated with the peripheral Europe while increasing efforts in attracting customer deposits, whose weight in the funding structure rose from 45% in 2009 to 52% in 2010.

The liquidity gap also improved throughout the year, dropping by EUR 1.7 billion from the first to the second half of 2010 and by EUR 0.6 billion quarter-on-quarter in the last quarter of the year.

Towards the end of the year, the Group placed – with the retail customers – five issues of Perpetual Subordinated Bonds with Conditional Interest, totalling EUR 320 million, thus strengthening the Tier I capital.

Funding Structure



Funding Sources (euro million)

	2007	2008	2009	2010
Treasury gap (net interbank deposits)*	**-2,302**	**3,843**	**-1,665**	**6,677**
Cash and equivalent with credit institutions	10,049	6,716	10,594	5,478
Short terms deposits from credit institutions	7,747	10,559	8,929	12,155
Medium / long term funds	**13,407**	**15,375**	**19,497**	**18,864**
Euro Medium Term Notes	11,000	13,442	17,712	16,673
"Medium and long term deposits with credit institutions"	2,407	1,933	1,785	2,190
On-balance sheet customer funds	**37,060**	**38,189**	**41,473**	**38,894**
Capital instruments	**7,509**	**7,482**	**9,578**	**9,768**
Total	**55,673**	**64,888**	**68,883**	**74,204**

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

BES Group has always adopted a very conservative approach to liquidity risk management, privileging medium/long-term funding instruments to the detriment of short-term instruments.

The Group has established guidelines to monitor its liquidity levels, and in particular the liquidity gap. These include the regular stress testing of scenarios with various degrees of severity, and permanent control of the liquidity ratios. In addition, the Group also defines and monitors warning signals of potential impacts on the Bank's financial situation, namely arising from risk of contagion (due to market tension) or from the repercussions of an economic crisis.

In addition to monitoring the liquidity gap, liquidity risk management is also conducted from a regulatory perspective. 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 December 31st, 2010, the liquidity gap up to one year, excluding all securities eligible for rediscount maturing within more than one year, was EUR -5,463 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 December 31st, 2010 was EUR 5,502 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 39 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, permitting 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 monetisation of illiquid assets carried in the balance sheet. According to this plan, the following transactions were carried out in 2010:

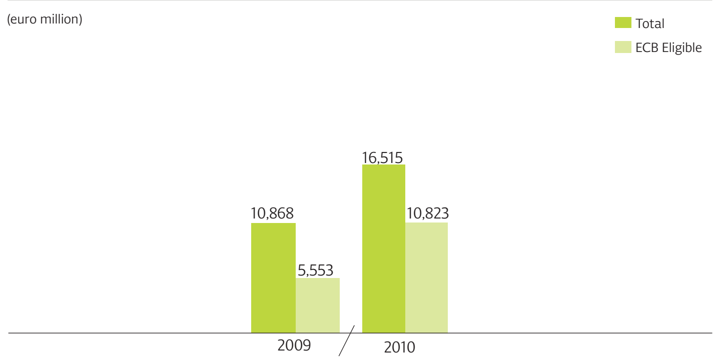
- Leverage loans securitization completed in February, with an AAA tranche amounting to EUR 290 million;

- Covered bond issues amounting to EUR 1,875 million;

- Securitization of SME loans completed in December, with an AAA tranche of EUR 1,107 million.

In December 2010, the Group had a EUR 16.5 billion portfolio of securities eligible for rediscount, of which EUR 10.8 billion are eligible for rediscount with the ECB.

Rediscountable Securities



This total includes all exposure to public debt of peripheral European countries (Portugal, Ireland, Greece and Spain) amounting to EUR 2,279 million (of which EUR 1,827 million with a maturity of less than one year), distributed as follows:

- Portugal: EUR 1,955 million;
- Ireland: EUR 0 million;
- Greece: EUR 309 million;
- Spain: EUR 21 million.

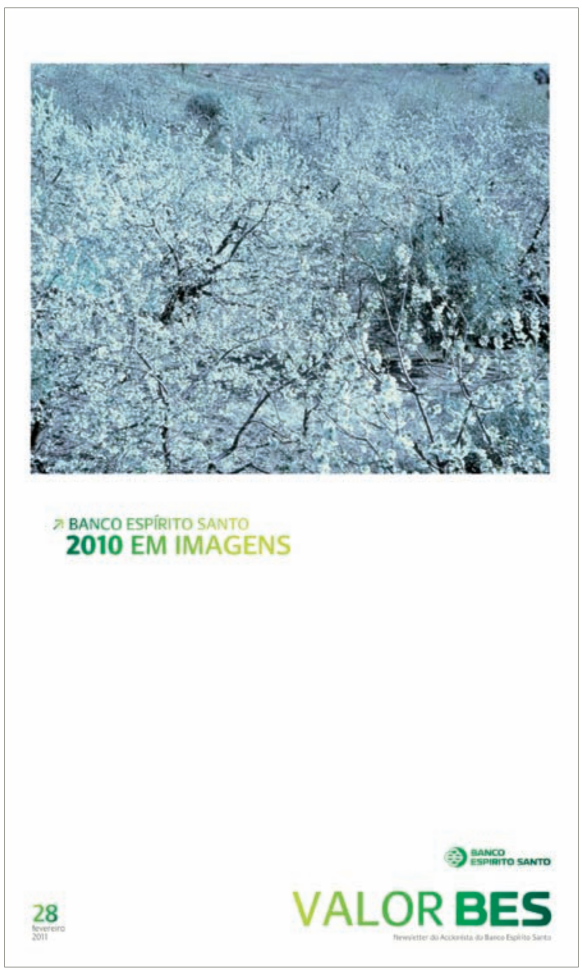
Rating assigned to Banco Espírito Santo

Agency	Long Term	Short Term	Outlook
Standard & Poor's	A-	A2	Negative
Moody's	A2	P1	Negative

Standard & Poor's: on April 27th, following its two notch downgrade of the long and short term ratings of the Portuguese Republic from A+/A-1 to A-/A-2, Standard & Poor's lowered BES's long and short term ratings from A to A- and from A-2 to A-1, respectively.

Moody's: on July 14th, after cutting the Portuguese Republic's rating by two notches, Moody's downgraded the ratings of all Portuguese Bank's. BES's long-term debt rating was lowered by one notch, from A1 to A2, and its short-term rating was maintained at P-1.

Fitch: on June 21st, following a downward review of the Portuguese banks' ratings, Fitch Ratings downgraded BES's rating from A+ to A-, with negative outlook. After a new cut of Portuguese banks' ratings on November 8th, in which BES's rating was downgraded from A to BBB+, BES decided to terminate its contract with Fitch Ratings.



5.1. The Risk Function within BES Group

The Risk Management function identifies, assesses and monitors all the material risks to which each institution within BES Group is subject, both internally and externally, so that such risks remain contained and therefore do not affect the Group's financial situation.

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**

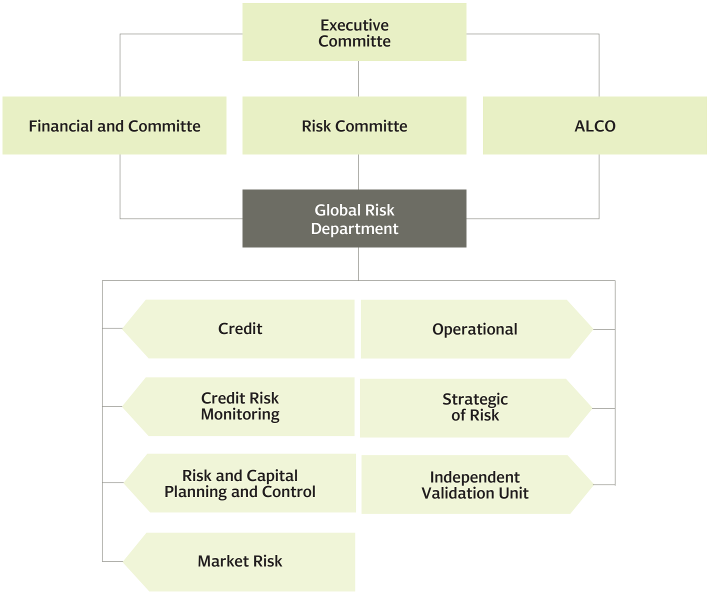
The definition of BES Group's risk appetite is the responsibility of the Executive Committee. Its responsibility also includes establishing general principles of risk management and control. BES Group has several specialised committees within its organisation that play a relevant role in the area of 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 BES Group's global risk, for monitoring the Group's integrated risk profile, and for analysing and proposing policies, methodologies, and procedures to assess and control all types of risk;

- 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. Among others, 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 to 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 operates independently from the other functional areas of BES Group, and is organised in such a way as to encompass the main risks to which the Group is exposed: credit, market, liquidity, on-balance sheet interest rate, and operational risks.



At operational level, risk management and monitoring are centralised at the Global Risk Department (GRD), which in its activity applies the principles underlying best international management practices, consistently incorporating risk and capital concepts within BES Group's strategy and business decisions.

The GRD has as main functions 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 harmonising 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;

- monitor BES Group's internationalisation strategy, cooperating in the design of organisation solutions and in the monitoring and reporting of the risk exposure of the various international areas.

The **Credit Risk** area is responsible for (i) the process of assigning risk ratings, and (ii) drafting risk analyses, including expert opinions on new credit operations and clients/business groups, when so justified by the respective liabilities versus rating, in accordance with the regulations in force.

The area responsible for **risk ratings, expert opinions and risk analyses** is organised into teams specialised by risk segments:

- **Rating Desk Team**, pfor 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 Team** covering the following areas:

  - validation of ratings in the medium-sized companies segment (individual or consolidated turnover between EUR 1.25 million and EUR 50 million);

  - 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 Team** responsible for start–ups (companies incorporated less than two years before) and Independent Professionals (IPs) with individual or consolidated turnover below EUR 1.25 million.

The Credit Risk Monitoring Area is responsible for monitoring and controlling credit risk, and for defining and implementing measures intended to deal with specific situations indicative of a deterioration of risk, with a view to mitigating potential losses. This process is supported by the Committee for Credit Risk Analysis (CCRA).

The Risk Monitoring Area also has the following responsibilities:

- to organise and lead the Impairment Committee, which makes impairment analyses of client with significant monthly changes and monitors client impairments when justified by their size or situation.

- to maintain relationships with the supervision authorities and the external auditors concerning the monitoring of the activities of supervision and credit portfolio revision;

- to assist the commercial areas concerning the early identification of risk indications in clients monitored by these areas, and the regular reporting and disclosure of such information in the “risk cockpit” (front desk);

- to support the Bank’s internationalisation process, namely through the definition of policies and procedures concerning risk and impairment monitoring mechanisms.

The area of **Risk and Capital Planning and Control** 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 these losses on a monthly basis;

- **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:

- define methodologies to calculate regulatory capital requirements under the Standard method, and coordinate these calculations;

- ensure that there are procedures in place to standardise, systematise and regulate the frequency of actions to identify the main sources of risk, through self-assessment exercises, in meetings with the representatives from Operational risk, and through critical analyses of reported events and other available data;

- monitor and analyse risk through key risk indicators (Risk Assessment Model - MAR) and the information available in the operational risk events database;

- establish and monitor the implementation of risk mitigation actions and measures;

- 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[1], LGD[2] and EAD[3] 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 (including from the division responsible for the development of models), having the following main responsibilities:

- to validate on a continuous basis the risk models and parameters used to calculate capital adequacy requirements for credit risk (PD, LGD and EAD/ CCF[4]), 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.

1 PD: Probability of Default
2 LGD: Loss Given Default
3 Exposure at Default
4 CCF: Credit Conversion Factor

In addition, the Internal Audit and Compliance functions (performed respectively by the Audit and Inspection Department and the Compliance Department) also have a particularly relevant role in risk management.

5.2 Basel II

In 2009 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 and the Standardised Approach (TSA method) to calculate regulatory capital requirements for operational risk.

As the first Portuguese bank to obtain this authorisation, BES once again assumed a position of market leader. 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.

The fact that BES Group has in place risk management tools allowing it to apply the best international practices in this area, thus having developed a business culture of great sensitivity to risk that is well rooted in the entire organisation, was also vital for obtaining this authorisation.

This achievement, while culminating a phase of significant investment made by BES Group in its risk models, processes and systems, also marked the beginning of another phase corresponding to the implementation of a 3-year roll-out plan that will extend these models and processes to all the Group's units.

- **Roll-Out Plan**

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.

	1st wave	2nd wave	3rd wave	4th wave	5th wave
Entities	• ES Plc • SFE • BES NY • BES Cayman	• Leasing (Corp) • BAC	• BES Spain • ES Bank	• BES Vénetie • BES Oriente	• Factoring

The 2nd wave was concluded during 2010. Both the 2nd and 1st waves are awaiting the Bank of Portugal's authorisation.

- **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.

The capital adequacy analysis carried out at the end of each year is complemented by 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.

2010 was marked by an adverse economic environment and high volatility in the capital markets. The resulting increased risks implied an increase in economic capital requirements. In line with its business strategy and responsibilities to its employees, the main risks to which BES Group is subject are credit risk, the banking book's market risk and the pension fund risk. Together, these three risks represented more than 75% of BES Group's total risk.

The results obtained through the ICAAP exercise conducted with respect to December 31st, 2010, which were delivered to the Bank of Portugal in June 2010, permitted to conclude that BES's own funds are sufficient to cover the risks incurred, from either the regulatory or the economic standpoint.

5.3. Solvency

At the end of December 2009 the Core Tier I ratio was 7.9% and the Tier I was 8.8% (standing above the minimum requirements of the Bank of Portugal).

Risk Weighted Assets and Eligible Capital (euro million)

		Dec. 09	Dec. 10
Risk weighted assets	A	65,097	68,802
Bankink Book		57,426	60,610
Tranding Book		4,003	4,219
Operational Risk		3,668	3,973
Regulatory capital	B	**7,256**	**7,798**
Tier I capital	C	5,405	6,040
Core Tier I	D	5,232	5,416
Tier II and deductions		**1,851**	**1,758**
Core TIER I	D/A	8.0%	7.9%
TIER I	C/A	8.3%	8.8%
Solvency ratio	B/A	11.2%	11.3%

- **Regulatory capital**

Core Tier I capital increased by EUR 175 million, totalling EUR 5,407 million in December 2010. Retained earnings were particularly relevant for this increase, since a significant part (EUR 330 million) of results was retained, while the increase in minority interests (+EUR 207 million) made a further contribution. These effects were in part offset by the recognition of negative actuarial deviations in post-retirement liabilities relative to 2008 (transitional period established by the Bank of Portugal) and the increase in goodwill determined in relation to acquisitions made by the Group (EUR -123 million).

Basic Own Funds (Tier I) increased by EUR 626 million, underpinned, not only by the referred increase in Core Tier I but also by the issue in the last quarter of 2010 of capital instruments eligible as Tier I (+EUR 320 million), and the reduction in holdings in financial companies (+EUR 133 million). Complementary Own Funds had a small reduction of EUR 61 million.

- **Risk Weighted Assets**

As of December 31st, 2010, Risk Weighted Assets totalled EUR 68,802 million, of which EUR 60,610 million (88% of the total) corresponded to credit and counterparty risk, EUR 4,219 million to market risk and EUR 3,973 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.

Risk Weighted Assets (per risk category) (euro 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 Authorities or Central Banks	19	0%	1,783	70%	1,802	26%
Institutions	2,818	26%	427	29%	3,245	26%
Corporate	35,366	73%	9,548	73%	44,914	73%
Retail	5,224	26%	557	64%	5,780	27%
Other	4,625	76%	244	80%	4,868	77%
Total	**48,051**	**53%**	**12,558**	**69%**	**60,610**	**56%**

(1) Risk Weight: Risk weighted assets / original exposure

In terms of geographical distribution, the international activity contributed with EUR 12,558 million, or 21%, to total Risk Weighted Assets, while the domestic activity contributed with EUR 48,051 million. By categories of risk, the corporate segment represented 74% 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, 2010 the capital requirements for Risk Weighted Assets amounted to EUR 4,219 million, with the main contributors being Interest Rate/Debt Instruments Risk (44% of the total) and Foreign Exchange Risk (47%).

Trading book risk weighted assets (euro million)

		2009	2010	Change
Debt instruments	Specific risk	552	831	279
	General risk	1,137	1,005	-132
	CIE*	133	37	-95
Equity instruments	Specific risk	43	96	54
	General risk	52	155	103
	CIE*	274	0	-274
Commodity risk		5	102	97
Fx risk		1,807	1,992	185
Total		**4,003**	**4,219**	**217**

* Collective investment entities - Investment funds

The increase in requirements in 2010 translates an increase in the specific risk of debt instruments (credit default swaps and securities), in the general and specific risk of equity instruments, in foreign exchange risk, and in commodity risk, and a decrease in CIE and commodity risks.

Operational Risk

Capital requirements for operational risk are determined under the Standardised Approach as the average over three years of the sum of the risk-weighted relevant indicators calculated each year across the regulatory business lines.

In 2010 risk-weighted assets increased by EUR 305 million as a result of the growth of net income considered for purposes of calculation of the relevant indicator, namely through the positive contribution from corporate banking activity (middle market and large corporate), which increased when compared to 2009.

(euro thousand)

	2009		2010	
	Capital Charge	RWA	Capital Charge	RWA
BES Group	**293,456**	**3,668,200**	**317,824**	**3,972,804**
Corporate finance	5,062	63,273	5,630	70,375
Trading and sales	82,572	1,032,151	91,473	1,143,408
Retail brokerage	1,433	17,911	1,746	21,822
Commercial banking	124,168	1,552,102	146,224	1,827,796
Retail banking	69,235	865,442	62,125	776,568
Payment and settlement	0	0	0	0
Agency services	233	2,908	333	4,166
Asset management	10,753	134,414	10,293	128,668

5.4 Risk Management within BES Group

5.4.1 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.

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 participants 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, while being also used to support the differentiation of pricing.

The use of rating classifications for purposes of establishing portfolio ceilings that limit credit granting by both product and rating levels, 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 submitted to the Risk Committee and distributed to the commercial areas. This practise has already been implemented and consolidated in the retail credit segments. In 2010 it was extended to the corporate credit portfolios, with full implementation scheduled for 2011.

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 2010 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 BES Group's 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 2010 the internal validation exercise applied to 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, acquisition finance and construction finance.

	Segmentation criteria	Model type	Description
Expert Judgement	Sector, Dimension, Product > Financial institutions > Municipalities > Institutional clientes > 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.
Statistical	Small businesses › Sales up to EUR 1.25 mn Start-Up's and entrepreneurs	Automatic	Rating model based on financial, qualitative and behavioural information. Rating model based on qualitative and behavioural informatio.

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 use 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.

A new rating model for the middle market segment was developed and implemented in 2010, with reinforced capabilities and better predictive capacity. The new model combines financial data with behavioural and qualitative data, taking into account the current economic and financial environment as well as BES Group's risk and business policies for the segment.

The disclosure of risk ratings also 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 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 (IPs).

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 Finance).

A new rating model for real estate projects was developed and implemented in 2010, reinforcing BES Group's capacity to assess the risk involved in these operations.

- **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. A new scoring model for consumer credit was developed and implemented in 2010.

		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 than 6 month history
Other credit to individuals		Model for new and current clients (less than 6 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
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 scoring models developed by the Group now play a key role, not only in the technical analysis of risk, but also in the credit risk approval and monitoring processes. These scoring models were also applied in the preapproved loan campaigns launched by BES Group in the course of 2010.

- **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 included in the Retail portfolios. Such parameters are used in risk management, impairment calculations and calculation of regulatory capital requirements for credit risk.

Continuing the work of previous years, in 2010 BES Group updated the LGD parameters applicable to the credit cards, current accounts and loan accounts portfolios included in the Retail segment.

Finally, BES Group also makes internal estimates of recovery rates for medium-sized and large companies portfolios, which are used in these segments' business processes.

A.2 Credit Risk Monitoring

The credit risk 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:

- Detection of warning signals;
- Monitoring of clients with warning signals (CCRA);
- Project to Combat Impairment Growth (CIG);
- Global analysis of the credit portfolio risk profile.

- **Detection of warning signals**

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.

- **Monitoring of clients with warning signals**

The function of monitoring clients with warning signals is the responsibility of the Committee for Credit Risk Analysis (CCRA), which for the purpose holds meetings throughout the year with 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 2010.

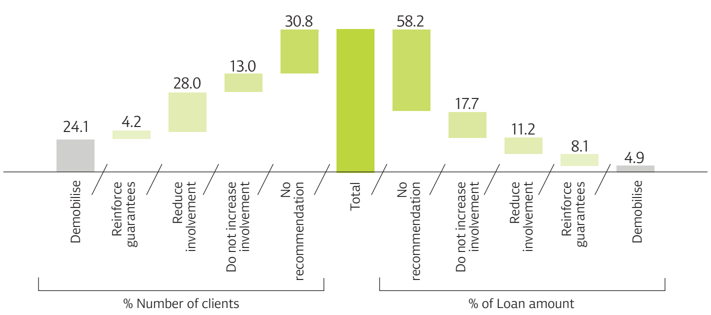
Hence during the year the CCRA analysed and assessed the specific situation of 10,200 clients (8% more than in 2009) with an overall exposure of around EUR 18.3 billion (of which 31% corresponded to a group of clients reported for the first time in 2010).

On the basis of this assessment and taking into account the specific characteristics of each case, the Committee issued recommendations concerning 77% of these clients (a total of 7,115 clients, of which 25% were reported for the first time), whose overall exposure corresponded to approximately 42% 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 (56% of the clients analysed), their credit exposure is significantly lower (slightly above 24%);
- no recommendations were issued for 30.8% of the clients analysed (corresponding to 58.2% of the exposures analysed), which permits to conclude that BES Group's 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.

2010 CCRA recommendations (distribution profile of the analysed portfolio)



Mirroring the growing difficulties experienced by a number of industry sectors, approximately 63% of the recommendations issued in 2010 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 2010 the credit risk monitoring process continued to be complemented by a specific programme to control impairment - the project to Combat Impairment Growth (CIG).

This project has the following objectives:

- establish priority approaches to clients with warning signals;

- draft financial advisory solutions;

- support corporate restructurings;

- set up a structured process to monitor risk mitigation actions defined for higher risk clients.

After identifying and prioritising the clients with warning signals, the programme focuses 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 senior management.

- **Global analysis of the risk profile of credit portfolios**

Credit portfolio management is an ongoing process that requires interaction among 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

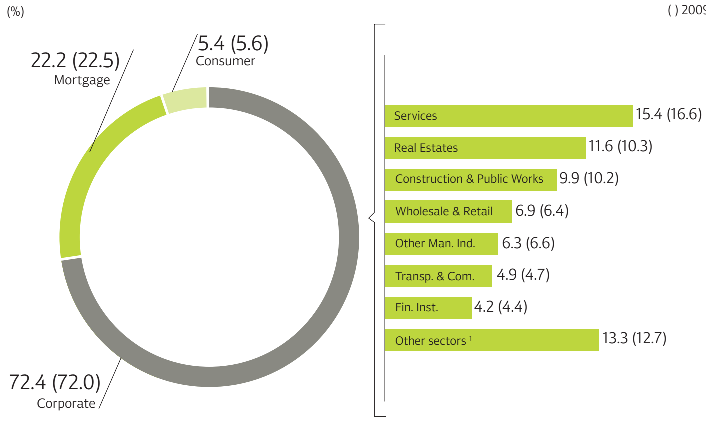
As of December 31st, 2010 the loan portfolio had increased by 3.3% year-on-year. Corporate loans grew by 4.7%, underpinned by BES Group’s continuous support to the Portuguese business community, and in particular to the SMEs. Loans to individuals (mortgage and others) remained practically flat when compared to the end of 2009. However, if securitisations are deducted, mortgage credit shows a year-on-year increase of 3.1%.

Loan Portfolio Breakdown

(euro million)

	2009		2010		Change (%)	
	Net of securitizations	Including securitized loans	Net of securitizations	Including securitized loans	Net of securitizations	Including securitized loans
Total gross loans	**50,531**	**53,958**	**52,606**	**55,713**	**4.1%**	**3.3%**
Mortgage	11,352	14,779	11,701	14,808	3.1%	0.2%
Inividuals (other)	2,817	2,817	2,822	2,822	0.2%	0.2%
Corporate	36,362	36,362	38,083	38,083	4.7%	4.7%

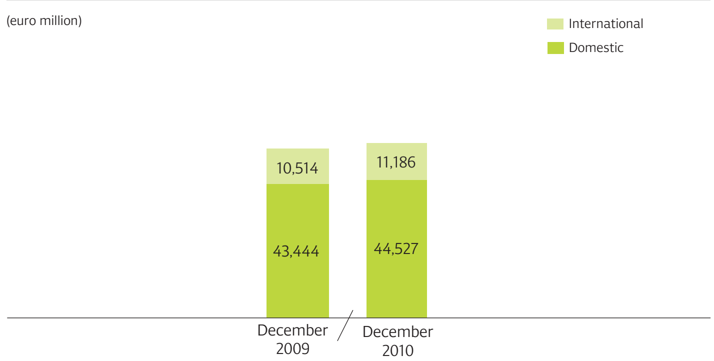
Total Loan Portfolio Breakdown by Industry Sector



[1] Represents a composite of the sectors of the economy none representing more than 2% per se.

In terms of geographical breakdown, international activities already account for 20% of the loan portfolio, a year-on-year increase of 6.4% that reflects the Group’s investment in and commitment to its internationalisation strategy.

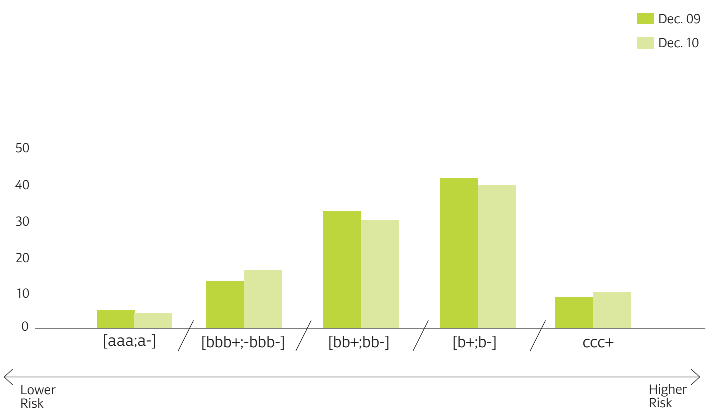
Geographic breakdown of the Loan Portfolio (including securitized)



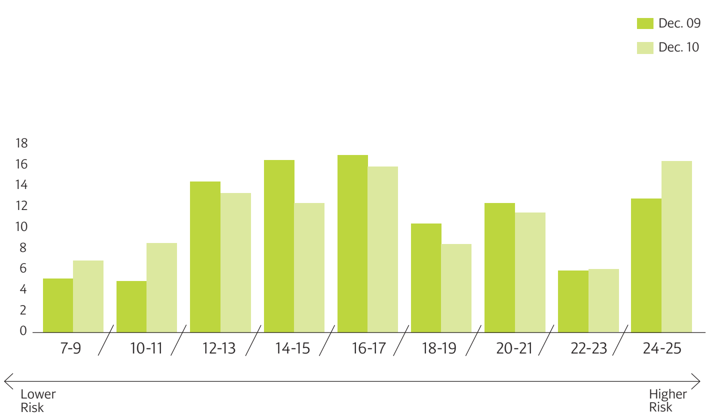
Credit portfolio breakdown by risk rating

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 2010, calling for the reinforcement of actions at the level of credit origination, monitoring and recovery (see 6.4.1 Credit Risk/ A. Management Practices).

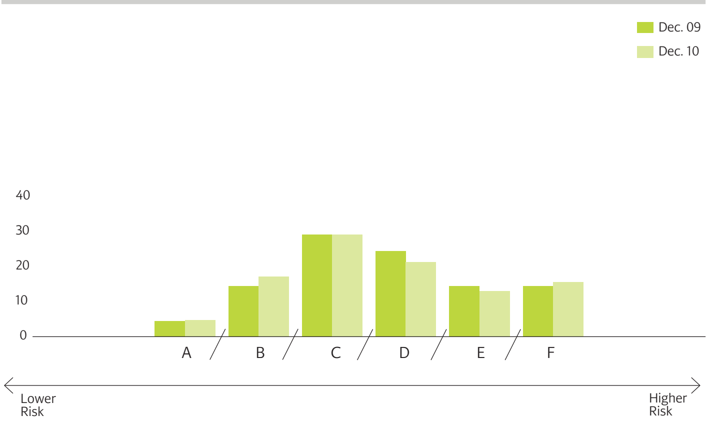
Rating model for large corporates



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 2010 inevitably affected BES Group's overdue loan ratios at both domestic and international activity level.

Asset Quality

(euro million)

	2009	2010	Change Absolute	Change Relative (%)
EUR million				
Gross loans	50,531	52,606	2,075	4.1%
Overdue Loans	893.5	1,106.7	213	23.9%
Overdue Loans +90d	810.6	1,027.1	217	26.7%
Overdue and Doubtful Loans (BoP) [(a)]	1,148.0	1,439.4	291	25.4%
Provisions for Credit	1,552.3	1,777.0	225	14.5%
Indicators (%)				
Overdue Loans / Gross Loans	1.77	2.10	0.33p.p.	
Overdue Loans +90d / Gross Loans	1.60	1.95	0.35p.p.	
Overdue and Doubtful Loans / Gross Loans(a)	2.27	2.74	0.47p.p.	
Coverage of Overdue Loans	173.7	160.6	-13.1p.p.	
Coverage of Overdue Loans + 90d	191.5	173.0	-18.5p.p.	
Coverage of Overdue and Doubtful Loans	135.2	123.5	-11.7p.p.	
Provisions for Credit / Gross Loans	3.07	3.38	0.31p.p.	
Provision Charge	1.07	0.67	-0.40p.p.	
Provision Charge net of Recoveries	1.03	0.63	-0.40p.p.	

(a) According to Circular Letter 99/2003/DSB of BoP

Key points regarding asset quality:

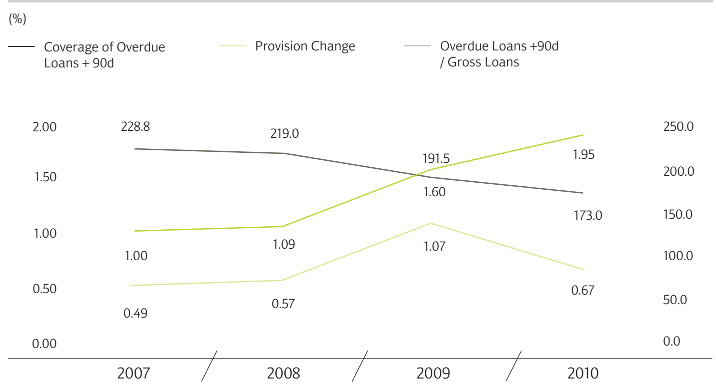
(i) favourable evolution of total balance of credit provisions over total loans, which has been consistently increasing, reaching 3.38% in December 2010 (December 08: 2.38%; December 2009: 3.07%);

(ii) overdue loans over 90 days represent 1.95% of customer loans, with the respective coverage standing at 173.0%;

(iii) significant reduction in the provisioning charge, which dropped to 0.67% of the loan portfolio, from 1.07% in 2009.

Despite the increase in overdue loans, the provisioning effort made in previous years permitted to reduce the provisioning charge in 2010 while maintaining significant provisioning levels.

Provision Coverage and Overdue Loan Ratio



Due to the climate of economic contraction lived in 2010, at both domestic and international level, overdue loan ratios deteriorated, particularly in corporate credit, where the ratio of overdue loans over 90 days to total loans increased by 45 b.p.

The table below shows the breakdown of overdue loans and respective provisioning coverage.

Breakdown of overdue loans over 90 days

	Non-performing loans			Coverage		
	2009	2010	Change	2009	2010	Change
Total loans	**1.60%**	**1.95%**	**35 b.p.**	**191%**	**173%**	**-18 p.p.**
Corporate	1.74%	2.20%	45 b.p.	187%	166%	-21 p.p.
Mortgage	0.73%	0.68%	-5 b.p.	258%	276%	18 p.p.
Individuals (other)	3.34%	3.92%	58 b.p.	166%	155%	-11 p.p.

B.2. Exposure to Emerging Markets

As of December 31st, 2010, the foreign currency exposure to emerging markets as determined under the Bank of Portugal risk assessment criteria was EUR 5,788 million, which represents 6.9% of consolidated assets (December 31st, 2009: 4.2%).

Exposure to Emerging Markets (euro million)

Country	Bank of Portugal risk weight	Dec. 2009 Net exposure Total	Dec. 2009 Net exposure In foreign currency	Dec. 2009 Structure (%)	Dec. 2010 Gross exposure [1]	Dec. 2010 Guarantees and deductions [2]	Dec. 2010 Net exposure Total	Dec. 2010 Net exposure In foreign currency	Dec. 2010 Structure (%)
Latin America		**3,227**	**854**	**45**	**5,802**	**1,409**	**4,392**	**1,636**	**44**
Bahamas	0%	3	3	0	1	0	1	1	0
Brazil	0%	3,144	771	44	4,259	225	4,034	1 277	41
Mexico	10%	12	12	0	37	25	11	12	0
Panama	10%	51	51	1	377	57	321	321	3
Venezuela	25%	8	8	0	1,071	1,070	0	0	0
Other		9	9	0	57	32	25	25	0
Eastern Europe		**4**	**4**	**0**	**92**	**51**	**41**	**2**	**0**
Croacia	10%	0	0	0	0	0	0	0	0
Ukraine	25%	0	0	0	0	0	0	0	0
Other		4	4	0	92	51	41	2	0
Asia Pacific		**279**	**210**	**4**	**423**	**135**	**287**	**209**	**3**
China	10%	13	13	0	73	45	29	29	0
India	10%	38	38	1	62	25	37	37	0
Macao	10%	146	77	2	180	19	161	83	2
Turkey	25%	61	61	1	73	41	32	32	0
Other		21	21	0	35	5	28	28	0
Africa		**3,601**	**2,413**	**51**	**6,134**	**939**	**5,197**	**3,941**	**52**
South Africa	10%	6	5	0	25	17	9	9	0
Angola	10%	3,482	2,304	49	5,918	865	5,054	3,808	51
Cape Verde	25%	75	74	1	110	10	100	99	1
Morocco	10%	10	0	0	10	1	9	0	0
Other		29	29	0	70	46	25	25	0
Total		**7,111**	**3,480**	**100**	**12,451**	**2,534**	**9,917**	**5,788**	**100%**
Net assets		**8.6%**	**4.2%**		**14.9%**		**11.9%**	**6.9%**	

1) Exposure net of provisions for country risk
2) Includes trade finance less than 1 year in the amount of EUR 1,047 million and IFC B Loans in the amount of EUR 10.8 million

The main emerging economies remained vigorous in 2010, posting strong GDP growth rates. BES Group operates in several countries within the emerging world, namely in Brazil and Angola, where its activity grew in tandem with the local economy. The Group's net exposure to these two countries thus increased by EUR 1,572 and EUR 890 million, respectively.

These exposures are considerably below the maximum limit permitted by the Bank of Portugal, which recommends maximum exposure corresponding to 30% of own funds.

5.4.2 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, 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 predictive 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. Analysis of Market Risk

Consolidated value at risk (VaR) on December 31st, 20010, 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 22.4 million, which compares with EUR 32.6 million at year-end 2009. This value (EUR 22.4 million) corresponds to 0.4% of BES Group's consolidated Tier I capital.

Value at Risk 99% at 10 days (euro million)

	Dec.10	2010 max.	2010 avg.	Dec.09
Equity and commodities	19.1	38.5	27.4	16.6
Interest rate	16.2	11.1	10.0	12.7
FX	14.2	25.6	20.8	24.2
Diversification effect	-27.1	-20.0	-22.4	-21.0
Total	**22.4**	**55.3**	**35.8**	**32.6**

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, 2010 the risk factors to which BES Group was more exposed lied in European yield curves, African exchange rates and South-American indices.

(euro million)

	Extreme case	Loss
Interest Rate Risk	20% parallel yield curve shift - Europe	20.7
	15% yield curve twist - Europe	17.3
	28% parallel yield curve shift - North America	17.3
	25% yield curve twist - North America	10.5
FX Risk	20% change in African countries	92.2
	35% change in South American countries	46.5
	40% change in European countries	15.2
	20% change in Asian countries	11.0
Equity Risk	50% change in South American indices	257.5
	25% change in European indices	38.7
	30% change in North American indices	5.3

5.4.3. On-balance sheet interest rate risk

Interest Rate Risk lies in the exposure of a bank's 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 a bank's 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.

In the case of BES Group, interest rate risk essentially derives from the issuance of long term fixed-rate bonds that are not adequately hedged by interest rate swaps, or for which there are no assets (bonds and fixed-rate credit) 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, 2010, interest rate risk, measured as its impact on BES Group's shareholders' equity, was EUR 596 million, which compares with EUR 607 million at year-end 2009.

5.4.4. Liquidity Risk

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

Banks are subject to liquidity risk by virtue of their business of providing long term loans and receiving short term deposits.

2010 was marked by the sovereign risk crisis in the Euro Area. This crisis reflected investors' doubts about the capacity of certain economies to maintain high indebtedness levels in an economic environment where, since the subprime crisis, global liquidity is much scarcer and financing criteria much more restrictive. The ECB's intervention through the acquisition of debt securities from Europe's periphery economies and the extension of liquidity provision to the financial system were important steps towards the stabilisation of the financial system.

BES Group's management of liquidity risk is centralised in the Financial Department - Markets and Research, involving the following tasks:

- drawing up an annual Financial Plan based on the approved budget. Based on projected funding needs, an annual plan of debt issues and securitisations is drawn up. This plan is monitored on a regular basis and revised in the course of the year, as necessary;

- monitoring and controlling liquidity risk, a vital task 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;

- carrying out stress tests 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.

Although not immune to the adverse market conditions since the onset of the liquidity crisis in 2008, BES Group has been able to overcome difficulties and constraints and maintain reasonable levels of 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 4. Financial Management and Capital Markets.

- **Main Developments occurred within BES Group in 2010**

The liquidity crisis lived during 2010 posed new challenges to financial institutions, stressing the importance of liquidity risk management and leading to the emergence of a new regulatory framework.

During the month of May, BES Group conducted a survey concerning best liquidity management practices.

As a result of this work, the Group initiated in November a project to upgrade its liquidity management model. The new model will maintain the Group aligned to best practices and allow it to face up to the new challenges ahead.

5.4.5 Operational Risk

Operational risk represents 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.

A. Management Practices

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.

The management of operational risk is supported by a structure within the organisation exclusively dedicated to designing, monitoring and maintaining the model. This structure works in close coordination and counts with the active participation of the following elements:

- operational risk representatives from the departments, branches and subsidiaries integrated within the scope of operational risk management. Working in close coordination with the Operational Risk area, they are responsible for the day-to-day management of operational risk in their units, where they must guarantee that the established procedures are implemented;

- the Internal Control System Management Unit (set up within the Compliance Department), which plays an 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, while maintaining continuous reporting to and from the operational risk management;

- the Internal Audit Department, which tests the efficacy of risk management and controls, identifies required steps for improvement and assesses their implementation;

- the Security Coordination office, with responsibility for data security, the safety of people and property, and business continuity.

The model developed in previous years was further consolidated in 2010. This included taking the following steps, with a positive impact on risk management efficacy:

- Implementation of the first phase of the new computer application to manage operational risk (called AGIRO), which increases efficiency in the collection and detailed description of risk events. This application is available on the intranet of the various entities encompassed by operational risk management, permitting the decentralised capture of events, adequate segregation of functions, and the regulatory validation and classification of the situations in question.

- Conclusion of the self-assessment exercise conducted in 2009. In the last quarter of 2010 a new self-assessment exercise was initiated in the entities not covered by the previous exercise. The results of these exercises, together with other information, provide a basis for the definition of the institution's risk profile.

- Identification of new Key Risk Indicators (KRI) according to the risk categories established by the Bank of Portugal's Risk Assessment Model ("MAR"), and taking steps to implement these indicators within BES and its branches.

- Promoting awareness to the theme of Operational Risk in several subsidiaries and branches, namely by developing actions intended to identify and monitor risk through the collection of events, the identification of mitigation measures, and the implementation of processes to control and record events.

- Creation of a specific forum to monitor IT Risk – the IT Risk Committee – which is led by Espírito Santo Informática (ESI) and includes the obligatory participation of representatives from the risk functions.

As a result of its efforts during the last few years, at the beginning of 2010 Espírito Santo Informática (ESI), the company in charge of BES Group's IT services, obtained the CMMI level 3 certification granted by the US Software Engineering Institute dos EUA, becoming the first IT company of a Portuguese financial institution to achieve this certification. The processes certified were evolutive maintenance, corrective maintenance, and applications development, involving, among others, the areas of project management, requirements, engineering and testing, management and support of processes. This certification reflects a more effective control of processes and therefore a reduction of risk.

B. Analysis of Operational Risk

Breakdown of operational risk events by type of risk

By loss severity and frequency, the most significant risk events in 2010 may be found in "Execution, Delivery & Process Management", which represent 46% of the total loss and 67% of total events. "Business Disruption and System Failures", accounting for 18% of total reported events, generally refers to temporary unavailability of information systems.

5.5. Environmental and Social Risk

BES Group's main social and environmental impacts, whether positive or negative, are indirect impacts arising from its financing or financial advisory activities.

The Bank has been developing and fine-tuning methodologies permitting a regular analysis of the projects which it finances that have high social and environmental impacts.

With regard to project finance and advisory services, BES Group analyses all the environmental and social impacts associated to the projects throughout the duration of the financing, based on the Equator Principles. This analysis allows the Bank to identify the risks involved, and to factor in these risks in financing decisions and take them into account during its involvement with the client.

The environmental responsibility that is increasingly demanded from companies and organisations across all sectors of activity, namely by virtue of the environmental accountability law, strongly emphasises the need for a widespread and effective management of environmental issues in order to guarantee business viability in the long run and compliance with the law. According to the new law, as from 2010 all companies are required to provide financial guarantees to cover the risk of potential impacts on the environment. BES Group naturally assumes its share in this responsibility, providing bank guarantees to help companies meet their responsibilities under this regime.

BES Group has progressively adapted its commercial approach that not only takes into account its clients' financial needs but also aims to make a correct interpretation and assessment of companies' environmental and social risks and therefore contribute to a responsible management of these risks. In 2010 the adjustment of this commercial approach implied the development and fine-tuning of the mechanisms currently used in the analysis of companies' social and environmental risks and impacts.

Within the scope of its Banking & Environment programme, in 2010 BES joined the United Nations Environmental Programme Finance Initiative (UNEP FI) in the implementation of a programme intended to collect updated relevant information about environmental risks from banks' risk managers and their teams, and from all Portuguese companies in general. This programme has the following objectives:

- to engage the Portuguese banking sector in the anticipation of potential financial risks arising from environmental issues;
- to disseminate the theme of environmental risks within the entire Portuguese financial system and SMEs;
- to provide the knowledge and tools required for the identification of the main environmental risks;
- to promote the gradual inclusion of companies' environmental risks in the credit analyses carried out by banks.

Several workshops were organised under this programme addressing the Construction, Real Estate and Tourism, Utilities (Electricity, Water and Telecommunications) Transports, Manufacturing Industry, and Financial sectors, which were attended by 115 participants.

In 2011 the Bank will develop specific financing policies for activity sectors with high environmental and social impacts. These policies will serve as guiding principles for all BES employees involved in the provision of finance and advisory services to companies with significant environmental impacts, and could also influence and help the clients to reduce and mitigate their most substantial impacts.

6 Financial Analysis

In a context of deterioration of financial conditions caused by the increase in sovereign risk, and of shrinking domestic demand, BES Group once again revealed its resilience to cycles of economic downturn, even seizing the scarce opportunities that emerged to generate value for its stakeholders. Hence the following main developments in 2010 should be highlighted:

- net income for the year reached EUR 510.5 million, a year-on-year reduction of 2.2%;
- return on equity (ROE) was 8.6% (2009: 10.0%);
- customer deposits grew by 21.1% while customer loans increased by 3.3%;
- the performance of the international division confirms the success of the internationalisation strategy and its contribution to consolidated results progressed to 40% (2009: 34%);
- solvency levels continued to reflect the Group's soundness: Core Tier I of 7.9%, Tier I of 8.8% and total capital ratio of 11.3%;
- definition and execution of a deleveraging programme that reduced the credit-to-deposits ratio from 192% at 31 December 2009 to 165% at 31 December 2010;
- prudent liquidity management that kept the dependence on ECB funding under control;
- despite a weaker showing in the year, efficiency levels, measured by the cost-to-income ratio, remained below 50% (48.6%).
- the average market share remained above 20%.

6.1. Activity

The efforts to secure funding from international capital markets continued to meet with severe restrictions as investors lost confidence and institutional debt portfolios contracted. This was particularly visible following the downgrades of Portugal's credit ratings by major international rating agencies.

In this context, total assets reached EUR 105.5 billion on December 31st, 2010, remaining virtually flat compared to the end of 2009 (-0.9%), mainly as a result of the deleveraging programme and the reduction of funding from wholesale clients.

Activity Indicators (euro million)

	Dec.09	Dec.10	Change
Total Assets (1)	106,513	105,540	-0.9%
Assets	82,297	83,655	1.7%
Customer Loans (incl. securitised)	53,958	55,713	3.3%
Loans to Individuals	17,596	17,630	0.2%
- Mortgage	14,779	14,808	0.2%
- Other Loans to Individuals	2,817	2,822	0.2%
Corporate Lending	36,362	38,083	4.7%
Total Customer Funds	60,595	55,988	-7.6%
On-Balance Sheet Customer Funds	41,473	38,894	-6.2%
- Deposits	25,447	30,819	21.1%
- Debt Securities placed with Clients (2)	16,026	8,075	-49.6%
Off-Balance Sheet Funds	19,122	17,094	-10.6%

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

Main highlights of the 2010 activity:

- deposits grew by 21.1%, reflecting the effort to attract funds from both individuals and corporate clients, especially in Portugal, to compensate less debt placements in the international markets due to the sovereign risk crisis;
- customer loans, including securitisation, increased by EUR 1,755 million or 3.3% year-on-year (+ 3.8% in 2009), although decelerating fast in the fourth quarter due to the implementation of the deleveraging programme;
- off-balance sheet funds dropped by 10.6%, reflecting the effort to increase deposit volume; however, asset and fund management was very strong in Brazil, growing by 43% year-on-year.

Corporate loans were the strongest growth component of the credit portfolio, rising by 4.7%, or EUR 1.7 billion, contrasting with the performance of loans to individuals, which remained practically flat year-on-year. As a result, the weight of corporate loans in the total credit portfolio increased by 0.4 p.p., to 72.4%.

Breakdown of the Credit Portfolio (euro million)

	Dec.09		Dec.10		Change	
	Excl. Securitisation	Incl. Securitisation	Excl. Securitisation	Incl. Securitisation	Excl. Securitisation	Incl. Securitisation
Gross Loans	**50,531**	**53,958**	**52,606**	**55,713**	**4.1%**	**3.3%**
Mortgage	11,352	14,779	11,701	14,808	3.1%	0.2%
Other loans to Individuals	2,817	2,817	2,822	2,822	0.2%	0.2%
Corporate Lending	36,362	36,362	38,083	38,083	4.7%	4.7%

Securitised amounts represent outstanding balance at year-end

The increase in customer deposits was not enough to compensate the reduction in debt securities placed with clients, leading to a year-on-year drop in on-balance sheet customer funds. Off balance sheet funds declined by 10.6%, underpinned by a reduction in mutual funds and portfolio management.

Off-Balance Sheet Funds (euro million)

	Dec.09	Dec.10	Change
Mutual Funds	5,531	4,460	-19.4%
Real Estate Funds	1,263	1,374	8.8%
Pension Funds	2,722	2,655	-2.5%
Bancassurance	5,511	5,374	-2.5%
Portfolio Management	2,561	1,786	-30.3%
Discretionary Management and Other	1,534	1,445	-5.8%
Total	**19,122**	**17,094**	**-10.6%**

As for the international activity, customer loans grew by 6.4%, while total customer funds declined by 33.8%, due to a reduction in the portfolio of certificates of deposit as a result of the sovereign risk crisis. Total assets amounted to EUR 26.6 billion.

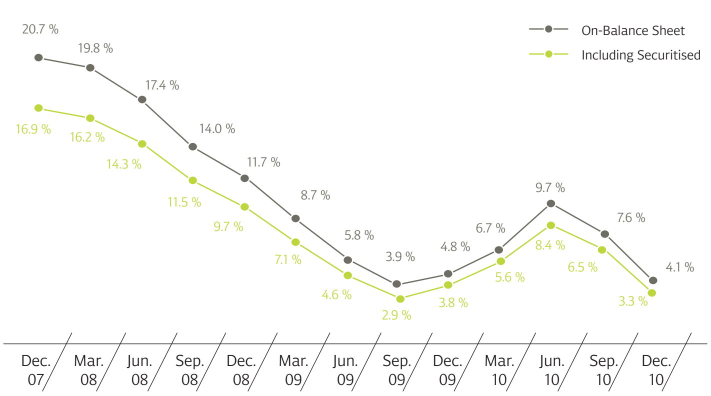
International Banking Business			(euro million)
	Dec.09	**Dec.10**	**Change**
Total Assets [1]	31,068	26,565	-14.5%
Customer Loans			
(Incl. Securitised)	10,514	11,186	6.4%
Total Customer Funds	19,394	12,841	-33.8%

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

6.2. Liquidity Management and Transformation Ratio

Reflecting the implementation of the deleveraging plan, the already weakening growth pace of customer loans further decelerated as from the third quarter of 2010, and at year end was lower than in 2009.

Customer Loans (year-on-year evolution)



Considering customer deposits only, the core transformation ratio (credit/deposits) improved significantly, from 192% to 165%. This translates the effects of the strategy of unwinding assets and reducing dependence from the international debt market. The loan/funding ratio was 131% as debt securities fell. Loans, both drawn and undrawn, sold to third parties in the international market in 2010 totalled EUR 1.1 billion.

Customer Loans / Customer Funds		(euro million)
	Dec.09	**Dec.10**
Customer Loans		
Gross Customer Loans	50,531	52,606
Impairment	1,552	1,777
Net Customer Loans	**48,979**	**50,829**
On-Balance Sheet Funds		
Deposits	**25,447**	**30,819**
Debt Securities placed with Clients [1]	16,026	8,075
On-Balance Sheet Customer Funds	41,473	38,894
Euro Medium Term Notes and Other [2]	17,714	16,674
On-Balance Sheet Funds	**59,187**	**55,568**
Ratios		
Loans[3] to Deposits	**192%**	**165%**
Loans[3] to On-Balance Sheet Customer Funds	**118%**	**131%**

(1) Includes debt securities issued under consolidated securitisations and Commercial Paper
(2) Includes covered bonds and exchangeable bonds
(3) Net Customer Loans

In addition, the Group has a portfolio of assets eligible as collateral in repo operations totalling EUR 16.5 billion, of which EUR 10.8 billion are eligible for funding operations with the ECB. It should also be stressed that net resources from the ECB were reduced by EUR 2.1 billion in the second half of the year (Jun.10: EUR 6.0 billion; Dec.10: EUR 3.9 billion).

6.3 Capitalisation and Capital Adequacy Ratios

In 2010 the Group increased regulatory capital by EUR 536 million, both through the generation of earnings and the issue of capital instruments.

a. Regulatory Capital

The table below lists the consolidated balance sheet items that concur to the formation of regulatory capital.

(euro million)

	Dec.09	**Dec.10**	**Change**
Capital	4,100	4,100	-
Ordinary	3,500	3,500	-
Preferred	600	600	-
Share Premium	1,085	1,085	-
Other Capital Instruments [a]	-	320	320
Own Shares	-25	-	25
Revaluation Reserves	301	- 10	- 311
Other Reserves and Retained Earnings	672	979	307
Minority Interests	284	491	207
Net Income	522	511	- 12
Total	**6,939**	**7,476**	**536**

(a) Of the euro 320 million issued, euro 50 million are included in the Minority Interests heading in the Consolidated Balance Sheet as of December 31, 2010

In 2010 there was a significant increase in core capital components, namely in Other Reserves and Retained Earnings (+ EUR 307 million), Non Controlling Interests (+ EUR 207 million) and Own Shares (+ EUR 25 million).

In addition, the Group issued Other Capital Instruments (perpetual bonds with interest conditioned) in the amount of EUR 320 million, which are eligible as Tier I.

It should be stressed that this issue was structured through the Group's own expertise, and placed primarily in Portugal at a time when market responsiveness to this type of instruments was low.

Revaluation Reserves declined by EUR 311 million, mainly due to the increase in credit spreads, leading to the recognition of negative fair value reserves in debt instruments. Despite the sharp devaluations occurred towards the end of the year, the main equity stakes in the available for sale portfolio continued to show potential gains, which amounted to EUR 120.3 million.

Main Equity Stakes in the Available for Sale Portfolio		(euro million)
	Gross potential gains and losses	
	Dec.09	**Dec.10**
Banco Bradesco	316.7	170.2
Portugal Telecom	67.4	-7.3
EDP - Energias de Portugal	-0.6	-49.9
B. Marocaine Commerce Exterieur	7.3	7.3
Total	**390.8**	**120.3**

b. Solvency

The BES Group capital ratios are calculated under the Basel II regulations. As from the first quarter of 2009 BES has been authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach for credit risk and the Standardised Approach – TSA method for operational risk. The IRB approach implies the use 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).

The table below provides the relevant information about risk-weighted assets, regulatory capital and capital ratios under the BIS IRB II approach, for December 2010 and December 2009.

Risk Weighted Assets and Regulatory Capital (Bank of Portugal) (euro million)

		Dec.09	Dec.10
Net Assets	(1)	82,297	83,655
Risk Weight	(2)/(1)	79%	82%
Risk Weighted Assets	(2)	65,097	68,802
Banking Book		57,426	60,610
Trading Book		4,003	4,219
Operational Risk		3,668	3,973
Regulatory Capital	(3)	7,256	7,798
Tier I	(4)	5,405	6,040
Core TIER I	(5)	5,232	5,416
Other Elements		173	624
Tier II and Deductions		1,851	1,758
Core TIER I	(5)/(2)	8.0%	7.9%
TIER I	(4)/(2)	8.3%	8.8%
Solvency Ratio	(3)/(2)	11.2%	11.3%

Risk weighted assets increased by 5.7% year-on-year, to EUR 68.8 billion, of which EUR 60.6 billion (or 88%), represent credit and counterparty risk.

In 2010, Tier I increased by EUR 635 million in 2010 due to:

- perpetual bonds issue in the fourth quarter with interest conditioned to EUR 320 million. This issue, carried out independently by the Group, was placed primarily in the domestic market by BES (EUR 270 million) and by BES Investimento (EUR 50 million). The issue is eligible for the Tier I, with hybrids weight limited to 35% of Tier I;

- incorporation of the 2010 retained earnings and amortisation of actuarial differences outside the corridor;

- reduction of exceeding limits of investments in financials below 10%.

The Tier I ratio thus increased from 8.3% in December 2009 to 8.8% in December 2010%. Core Tier I and total solvency ratios were 7.9% and 11.3% (Dec. 09: 11.2%), respectively.

6.4. Results

BES Group's net income for 2010 was EUR 510.5 million (-2.2% YoY), corresponding to a return on equity (ROE) of 8.6%. On a comparable basis, and excluding non recurrent items in 2009 (sale of 24% of BES Angola) and in 2010 (extraordinary dividend received from Portugal Telecom), the decrease would have been 8.8%.

Income Statement (euro million)

	2009	2010	Change Abs.	Change Rel.
Net Interest Income	1,200.9	1,164.0	-36.9	-3.1%
+ Fees and Commissions	717.9	806.9	89.0	12.4%
= Commercial Banking Income	**1,918.8**	**1,970.9**	**52.1**	**2.7%**
+ Capital Markets and Other results	530.6	432.9	-97.7	-18.4%
= Banking Income	**2,449.4**	**2,403.8**	**-45.6**	**-1.9%**
- Operating Costs	1,055.7	1,169.5	113.8	10.8%
= Net Operating Income	**1,393.7**	**1,234.3**	**-159.4**	**-11.4%**
Net Provisions	708.8	533.6	-175.3	-24.7%
Credit	539.9	351.8	-188.1	-34.8%
Securities	73.0	76.5	3.5	4.8%
Other	95.9	105.3	9.4	9.8%
= Income before Taxes and Minorities	**684.9**	**700.7**	**15.8**	**2.3%**
- Income Tax	109.8	43.7	-66.1	-60.2%
= Income after Taxes	**575.1**	**657.0**	**81.9**	**14.3%**
- Minority Interests	53.0	146.5	93.5	....
= Net Income	**522.1**	**510.5**	**-11.6**	**-2.2%**

Financial 2010 proved once again the BES Group's ability to generate earnings. In this regard, the following items were particularly relevant:

- income increase from commercial banking, with fees and commissions offsetting a 3.1% reduction in net interest income, mainly driven by the domestic activity;

- operating costs increase exceeded banking income growth due to the development of the internationalisation strategy;

- the provision charge remained high (43% of gross earnings were allocated to provisions);

- tax savings are explained by a greater contribution of the international area to recurrent income generation (2010: 48%; 2009: 34%), the elimination of double taxation of dividends under Article 51 of the income tax code for corporations (CIRC) (2010: EUR 193 million; 2009: EUR 89 million), and the capital gains tax (Articles 46 to 48 of the CIRC) applied in 2009 to the EUR 191 million capital gain on the sale of 24% of BES Angola (since the shares sold after BESA's capital increase had been held for less of one year;

- the total tax burden for the year (income tax, banking sector fund (CAFEB), VAT and other indirect taxes) totalled EUR 132 million (2009: EUR 184.3 million), which represents 19% of consolidated net income before taxes and minority interests (2009: 27%).

Activity Results: Domestic and International Business

As a result of the international expansion strategy implemented, the international area's contribution to consolidated net income has been crucial. These were main internationalisation developments:

- April 2010: acquisition of 40% and management control of Aman Bank, a private bank based in Tripoli, Libya;

- July 2010: incorporation of Banco Espírito Santo Cabo Verde;

- August 2010: Banco Espírito Santo signed an MOU with Banco do Brasil and Banco Bradesco (Brazil) for a common strategy in Africa, to be deployed through BES África, BES Group's holding firm for stakes in African financial institutions;

- December 2010: ESAF (BES Group asset management firm) acquired Gespastor SGIIC (fund management firm) from Banco Pastor in Spain;

- December 2010: BES Investimento concluded the acquisition of a 50.1% stake in Execution Holdings Limited, a London-based investment banking and securities firm;

- January 2011: BES Group completed the acquisition of a 25.1% stake in Moza Banco, a Mozambican bank.

The international units' net income totalled EUR 203.8 million, a 13.6% year-on-year increase (or 39.4% on a comparable basis, i.e. adjusting BES Angola's FY10 earnings for the stake currently held by the Group). Commercial banking income grew by 53.2%, underpinned by a 63.1% increase in net interest income and by a 31.1% increase in fees and commissions, combined with lower provision charges. The international area's contribution to consolidated net income increased to 40% (2009: 34%), or to 48% if the Portugal Telecom extraordinary dividend payment is excluded.

Domestic net income decreased by 10.5% due to a 29.1% reduction in net interest income. However, this drop was offset by capital gains obtained and an increase in dividends received, which led to the booking of a tax credit of EUR 16 million.

Income Statement – Domestic and International Breakdown

(euro million)

	Domestic Activity			International Activity		
	2009	2010	Change	2009	2010	Change
Net Interest Income	861.8	611.2	-29.1%	339.1	552.8	63.1%
+ Fees and Commissions	567.7	610.0	7.4%	150.2	196.9	31.1%
= Commercial Banking Income	**1,429.5**	**1,221.2**	**-14.6%**	**489.3**	**749.7**	**53.2%**
+ Capital Markets and Other results	382.9	408.9	6.8%	147.7	24.0	-83.7%
= Banking Income	**1,812.4**	**1,630.1**	**-10.1%**	**637.0**	**773.7**	**21.5%**
Operating Costs	834.2	886.7	6.3%	221.5	282.8	27.7%
= Net Operating Income	**978.2**	**743.4**	**-24.0%**	**415.5**	**490.9**	**18.1%**
- Net Provisions	540.8	430.5	-20.4%	167.9	103.1	-38.6%
Credit	387.0	258.7	-33.2%	152.9	93.1	-39.1%
Securities	71.8	76.9	7.1%	1.1	- 0.4	....
Other	82.0	94.9	15.8%	13.9	10.4	-25.0%
= Income before Taxes and Minorities	**437.4**	**312.9**	**-28.5%**	**247.6**	**387.8**	**56.6%**
- Income Tax	88.9	- 16.0	....	21.0	59.6	....
= Income after Taxes	**348.5**	**328.9**	**-5.6%**	**226.6**	**328.1**	**44.8%**
- Minority Interests	5.7	22.2	....	47.3	124.3	....
= Net Income	**342.8**	**306.7**	**-10.5%**	**179.3**	**203.8**	**13.6%**

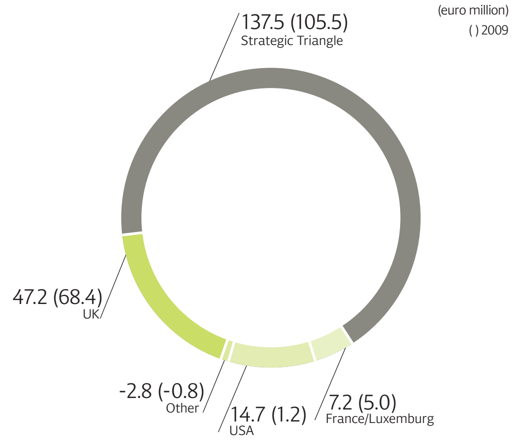
Almost all the international units, particularly the United Kingdom and Angola, reported profits. Driven by the recovery in Spain, the good performance of BES Angola and the activity in Brazil, net income from the strategic triangle increased by 30.3%, to EUR 137.5 million (67% of the international area's total net income).

International Area's Contribution to Net Income

Strategic Triangle

	2009	2010
Africa*	92,4	92,6
Brazil	27,1	32,1
Spain	-14,0	12,8
Total	**105,5**	**137,5**

67% of Total



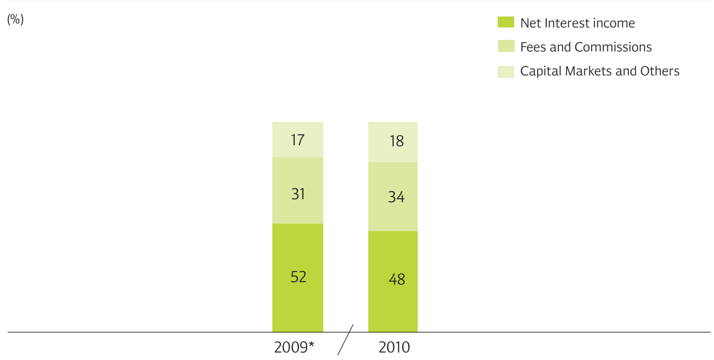
* Angola, Libya and Cape Verde

a. Banking Income

Commercial banking income increased by 2.7% year-on-year, with a 12.4% rise in fees and commissions offsetting a 3.1% reduction in net interest income. Total banking income dropped by 1.9%, due to an 18.4% reduction in capital markets results.

The structure of banking income thus shows some changes compared to 2009: while the relative weight of fees and commissions increased from 31% to 34%, that of net interest income retreated from 52% to 48%. The contribution of capital markets results remained practically flat.

Banking Income Breakdown



* excluding non-recurrent results

b. Net Interest Income and Net Interest Margin

2010 was a very challenging year for Net Interest Income management. As from the second half of the year, amid a climate of loss of confidence, the markets started demanding the highest risk premiums from Europe's peripheral countries since the creation of the Euro Zone, thus reducing the Republic's access to the debt markets.

Sovereign risk perception immediately contaminated the financial sector, which started facing difficulties in refinancing its debt. Market sentiment further deteriorated in the fourth quarter, when the financial sector's 5-year Credit Default Swaps (CDS reached 900 bp). In this context, banks stepped up efforts to attract customer funds, namely deposits, while also engaging in a deleveraging process.

Furthermore, interest rates remained low: the 3-month Euribor reached a low of 0.63% in March, which compares with 2.89% in December 2008 and a peak of 5.39% on October 8th, 2008.

Key Interest Rates

(%)

	Year End			Average		
	2008	2009	2010	2009	2010	Chg. (bp)
Euribor 3M	2.89	0.70	1.01	1.23	0.83	-42
Euribor 6M	2.97	0.99	1.23	1.44	1.08	-36

Although key rates increased towards the year end, full year average for 3- and 6-month Euribor fell by 42 bps and 36 bps, respectively, further pressuring the Net Interest Margin in general and the deposit margin in particular.

Net Interest Income and Net Interest Margin

(euro million)

	2008			2009		
	Average Balance	Yield (%)	Revenues/ Costs	Average Balance	Yield (%)	Revenues/ Costs
Interest Earning Assets	67,849	4.33	2,937	71,820	4.07	2,922
Customer Loans	48,579	4.52	2,195	52,042	3.92	2,038
Other Interest Earning Assets	19,270	3.85	742	19,778	4.47	884
Other	169	-	-	343	-	-
Interest Earning Assets and Other	**68,018**	**4.32**	**2,937**	**72,163**	**4.05**	**2,922**
Interest Bearing Liabilities	68,018	2.55	1,736	72,163	2.44	1,758
Deposits	24,515	1.89	464	27,146	1.87	508
Other Interest Bearing Liabilities	43,503	2.92	1 272	45,017	2.78	1,250
Other	-	-	-	-	-	-
Interest Bearing Liabilities and Other	**68,018**	**2.55**	**1,736**	**72,163**	**2.44**	**1,758**
Net Interest Income / Net Interest Margin		**1.77**	**1,201**	**1.61**	**1 164**	

While the average rate on interest earning assets dropped by 27 bp, in line with the trend in reference rates, the average rate on interest bearing liabilities declined by 11 bp only (from 2.55% to 2.44%), impacting the net interest margin, which decreased by 16 bps, to 1.61%, and consequently the net interest income of the full year, which totalled EUR 1.16 billion (2009: EUR 1.20 billion).

The decrease 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.

Price versus Volume effect

(euro million)

	Volume Effect	Price Effect	Volume / Price Effect	YoY Change
Interest Earning Assets	179	-182	-12	-15
Interest Bearing Liabilities	106	-78	-6	22
Net Interest Income	**73**	**-104**	**-6**	**-37**

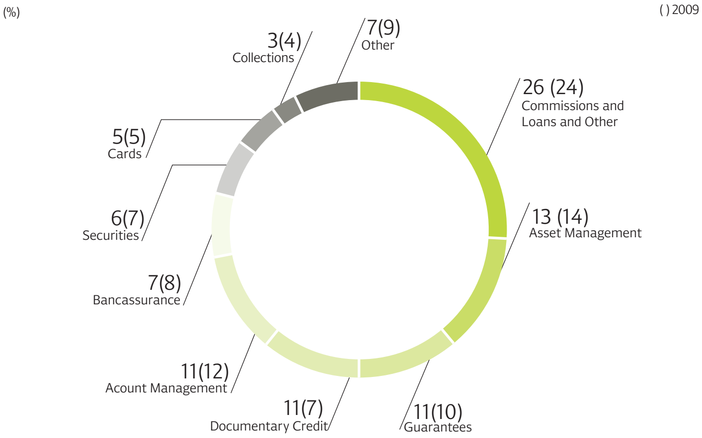
The EUR 37 million year-on-year reduction in net interest income was largely underpinned by a EUR 104 million negative price effect (due to the average interest rates applied to interest earning assets and liabilities, interest earned fell by EUR 182 million while interest paid only dropped by EUR 78 million), which was not compensated by the volume effect (EUR 73 million, due to a 6% increase in average interest earning assets).

Net interest income from the international area increased its contribution to consolidated net interest income from 28% in 2009 to 47% in 2010.

c. Fees and Commissions

Fees and commissions totalled EUR 806.9 million, a 12.4% year-on-year increase that continued the rising trend throughout 2010 and 2009.

Breakdown of Fees and Commissions (% of total)



The good performance of fees and commissions was underpinned by the permanent alignment of products and services to the needs of the clients, improved quality and constant innovation. Main drivers of fees and commissions:

- commissions on documentary credits increased by 78.9%, underpinned by foreign trade transactions, especially with the emerging markets, that are in line with the Group's strategy of supporting the internationalisation of the Portuguese companies;

- commissions on guarantees increased by 26.1%, driven by the increase in guarantees provided by the corporate banking area, namely to commercial paper issues;

- commissions on loans rose by 21.7%;

- asset management fees registered a small increase of 3.2%, despite this area's subdued performance in attracting savings;

- credit card commissions were strong, growing by 14%.

On the other hand, there was a reduction in commissions on collection and payment services (due to a decline in discounted bills), on securities, bancassurance (because turnover from all types of products decreased), and commissions on payment services (the retraction in private consumption induced by the economic environment led to a reduction in the use of cheques and ATMs/POS).

d. Capital Markets and Other Results

Capital markets and other results totalled EUR 432.9 million, compared to EUR 530.6 million in 2009.

Capital Markets and Other Results

(euro million)

	Dec.09	Dec.10	Change
Capital markets Results	**389.0**	**369.0**	**-20.0**
Interest Rate, Credit and FX	**132.1**	**-27.5**	**-159.6**
Interest Rate	234.9	29.9	-205.0
Credit	-65.5	-117.0	-51.5
FX and Other	-37.3	59.6	96.9
Equity	**256.9**	**396.5**	**139.6**
Trading	167.5	203.2	35.7
Dividends	89.4	193.3	103.9
Other results	**141.6**	**63.9**	**-77.7**
Total	**530.6**	**432.9**	**-97.7**

Lower liquidity in the financial markets and high uncertainty levels marked the reporting year, reflecting strong investor concerns with the public accounts in the Euro Zone countries. This has led to a significant widening of credit spreads for public debt and financial institutions in the periphery of the Euro Zone.

Moreover, negative investor sentiment about the Euro Zone resulted in a sharp devaluation of the Euro against several currencies such as the USD and the BRL.

Despite this unfavourable context, capital markets results were EUR 109.8 million in the first quarter, EUR 95.9 million in the second quarter, EUR 46.2 million in the third quarter, and EUR 181 million in the fourth quarter. Except for credit, for the reasons already pointed out, all other capital markets business lines reported profits. Equity and FX were the top performers, with profits of EUR 203.2 million and EUR 60 million, respectively. The year's profit includes EUR 89.1 million relative to the extraordinary dividend paid by Portugal Telecom

e. Operating Costs

Operating costs grew by 10.8% in 2010, with the international costs rising by 27.7%, above the 6.3% increase in domestic costs.

The increase in international costs reflect the purchase or creation of new units during the year, while the increase in domestic costs is in part explained by the support provided by the organisation to the implementation of the international expansion strategy.

Operating Costs

(euro million)

	Domestic		International		Consolidated	
	Amount	Change	Amount	Change	Amount	Change
Staff Costs	466.8	5.8%	161.5	29.7%	628.3	11.0%
Admin Costs	340.4	5.9%	100.7	24.1%	441.1	9.6%
Depreciation	79.5	11.2%	20.6	31.1%	100.1	14.8%
Total	**886.7**	**6.3%**	**282.8**	**27.7%**	**1169.5**	**10.8%**

Staff costs rose by 11.0% (29.7% in the international area and 5.8% in the domestic operations). A new agreement has been reached under which bank employees hired prior to March 3rd, 2009 will be integrated in the General Social Security Scheme as from January 1st, 2011. Under this agreement, employee protection with respect to maternity, paternity and adoption allowances, and retirement pensions, will be ensured by the Social Security, while banks will be responsible for benefits in case of illness, disability, survival (of a spouse) and death (Decree–Law no. 1-A /2011, of January 3rd). This decree law also extinguishes the banking sector family allowance fund (CAFEB) and establishes a contribution rate of 26.6%, of which 23.6% is paid by the employer and 3% by the employee. The pension rights of employees in active service hired prior to March 3rd, 2009 are now covered under the terms defined by the Social Security General Scheme, based on time of service since January 1st, 2011 until the age of retirement, while banks will bear the difference required to top up the pension guaranteed under the terms of the Collective Wage Agreement ("ACT").

Staff Costs

(euro million)

	2009	2010	Change	
			Abs.	%
Remunerations and social charges	479.9	537.6	57.7	12.0%
Post-Employment benefits	86.0	90.7	4.7	5.4%
Total	**565.9**	**628.3**	**62.4**	**11.0%**

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 Group's post retirement liabilities (pensions and healthcare), totalling EUR 2,205 million, are fully covered. The annual contribution to the pension funds was EUR 58 million in 2010.

Coverage of post-retirement liabilities

(euro million)

	Dec.09	Dec.10
Total Post-Employment Benefits	2,125	2,205
Value of Plan Assets	2,198	2,206
Coverage	**103%**	**100%**

On balance sheet actuarial differences outside the corridor reached EUR 666 million and will be amortised over a period of 15 years in staff costs.

On Balance sheet actuarial differences with amortisation in the future

(euro million)

	Dec.09	Dec.10
Inicial Balance	**971**	**839**
Movements of the year	- 132	45
Final Balance	**839**	**884**
of which:		
corridor	219	218
out of the corridor	620	666

The general administrative costs increased by 9.6% due to the expansion of international activities (+24.1%), where investments in IT and premises also determined a 14.8% increase in amortisation and depreciation.

f. Productivity and Efficiency

Productivity and efficiency indicators were conditioned by the Group's international expansion, despite continuous implementation of cost control measures, rationalisation of human resources and operations, simplification of processes and consequent investment in new technologies.

As a result, the Cost to Income increased by 5.5 pp to 48.6%, still consistently below the 50% level.

The Operating Costs / Average Net Assets ratio slightly increased compared to 2009. Total Assets per Employee declined by 10.5% year-on-year (excluding the effect of the consolidation of Aman Bank and Execution Noble, in December, 2010 Total Assets per Employee would decrease by 4.7%).

Productivity and Efficiency Indicators

	Dec.09	Dec.10	Change
Cost to Income	43.1%	48.6%	5.5p.p.
Commercial Cost to Income	55.0%	59.3%	4.3p.p.
Operating Costs/Average Net Assets	1.36%	1.40%	0.04p.p.
Total Assets* per Employee (euro thousand)	11,965	10,706	-10.5%

* Net Assets+Asset Management+Other Off-Balance Sheet Liabilities+Securitised Credit

g. Provisions

In light of the evolution of the financial crisis initiated in the second half of 2007, the Group has maintained a prudent provisioning policy, and in 2010 allocated 43% of the gross income to the reinforcement of provisions (2009: 51%).

Provision Charges (euro million)

	Dec.09	Dec.10	Change
Credit	539.9	351.8	-188.1
Securities	73.0	76.5	3.5
Other Risks and Charges	95.9	105.3	9.4
TOTAL	**708.8**	**533.6**	**-175.2**

The credit provisioning charge was EUR 352 million, which is lower than in 2009 (both in the domestic and in the international area), partially due to the additional charge of EUR 106 million made in 2009.

Provisions for securities totalled EUR 76.5 million, driven by impairments signs in certain debt issuers.

Other provision charges amounted to EUR 105.3 million, reflecting different contingencies inherent to the normal activity of the Group. From this amount 54% is intended to cover impaired assets, namely real estate received during the loan recovery process.

The 2010 provision charge was 0.67% (2009: 1.07%, or 0.86% on a comparable basis), while the Provisions for Credit / Gross Loans ratio increased to 3.38% (2009: 3.07%). Credit provisions increased by EUR 225 million year-on-year, to EUR 1 777 million.

Credit provisions (euro million)

	2009	2010	Change	
			Abs.	%
Gross Customer Loans	50,531	52,606	2,075	4.1%
Provisions increase	539.9	351.8	-188.1	-34.8%
Provision Reserve	1,552.3	1,777.0	224.7	14.5%
Provision charge	1.07%	0.67%	-0.40pp	
Credit provisions Reserve/ Customer Loans	3.07%	3.38%	0.31pp	

6.5. Profitability

The 2010 net income corresponds to a return on equity (ROE) of 8.6%, compared to 10.0% in 2010. This figure, which incorporates the effect of the last capital increase in April 2009, clearly expresses BES Group's resilience and capacity to create value, even in a very adverse context. Return on assets (ROA) was 0.61%, which compares with 0.66% in 2009.

Profitability Breakdown (%)

	2009	2010	Change p.p.
Yield on Interest Earning Assets	4.32	4.05	-0.27
- Yield on Interest Bearing Liabilities	2.55	2.44	-0.11
= Net Interest Income	**1.77**	**1.61**	**-0.16**
+ Return on Commissions and Fees	1.06	1.12	0.06
+ Return on Capital Markets and Other Results	0.78	0.60	-0.18
= Business Margin	**3.60**	**3.33**	**-0.27**
- Weighting of Operating Costs	1.55	1.62	0.07
Weighting of Provisions	1.04	0.74	-0.30
- Weighting of Minorities and Other	0.24	0.26	0.02
= Return on Interest Earning Assets	**0.77**	**0.71**	**-0.06**
x Weighting of Interest earning Assets	0.86	0.86	0.00
= Return on Assets	**0.66**	**0.61**	**-0.05**
x Placements multiplier	15.07	14.03	-1.03
= Return on Equity	**10.00**	**8.55**	**-1.45**

These results and profitability were achieved amid an environment of increasing sovereign risk deterioration in the peripheral Euro Zone countries, which had consequences on the debt and capital markets. BES Group was capable of countering these effects supported by the following key factors: (i) prudent financial management based on diversification of funding sources; (ii) maintenance of solvency levels above the minimum requirements; (iii) integrated and prudent risk control; and (iv) a consistent internationalisation programme.

6.6. Financial Analysis of Banco Espírito Santo

Key Indicators

	SIMBOL.	2006	2007	2008	2009	2010
BALANCE (euro million)						
Total Assets[1]	TA	68,773	80,015	89,641	98,689	99,225
Net Assets	NA	50,537	58,020	67,425	74,715	75,964
Interesting Earning Assets (average)	IAE	38,147	44,327	52,359	60,063	65,762
Capital and Reserves (average)	$\overline{KP}$	2,753	3,419	3,610	4,585	5,136
INCOME STATEMENT (euro million)						
Net Interest Income	NII	627.2	723.9	799.1	909.1	662.4
+ Fees and Commissions	FC	394.8	404.2	408.9	468.7	498.6
= Commercial Banking Income	CBI	1,022.0	1,128.1	1,208.0	1377.8	1,161.0
+ Capital Markets and Other Results	CMR	176.6	367.1	71.9	475.8	344.2
= Banking Income	BI	1,198.6	1,495.2	1,279.9	1,853.6	1,505.2
- Operating Costs	OC	663.0	724.1	765.9	812.2	861.9
- Provisions and Taxes	ProvT	278.1	276.4	302.1	672.6	387.3
= Net Income	NII	257.5	494.7	211.9	368.8	256.0
PROFITABILITY (%)						
Net Interest Margin	NII / $\overline{IEA}$	1.64	1.63	1.53	1.51	1.01
+ Return on Fees and Commissions	FC / $\overline{IEA}$	1.03	0.91	0.78	0.78	0.76
+ Return on Capital Markets and Other Results	CM / $\overline{IEA}$	0.46	0.83	0.14	0.79	0.52
= Business Margin	BI / $\overline{IEA}$	3.14	3.37	2.44	3.09	2.29
- Weighting of Operating Costs	OC / $\overline{IEA}$	1.74	1.63	1.46	1.35	1.31
- Weighting of Provisions and Taxes	Prov / $\overline{IEA}$	0.73	0.62	0.58	1.12	0.59
= Return on Financial Assets	RFA / $\overline{IEA}$	0.68	1.12	0.40	0.61	0.39
x Weighting of Interest Earning Assets	$\overline{IEA}$ / $\overline{NA}$	0.86	0.85	0.85	0.84	0.87
= Return on Assets (ROA)	NP / $\overline{NA}$	0.58	0.94	0.34	0.52	0.34
x Placements Multiplier	$\overline{NA}$ / $\overline{KP}$	16.12	15.32	17.03	15.55	14.78
= Return on Equity (ROE)	NP / $\overline{KP}$	9.35	14.47	5.87	8.04	4.98

(1) Net Assets + Asset Management + Securitised Credit

6.6.1. Activity

The activity of Banco Espírito Santo during 2010 was conditioned by the deterioration of financial conditions caused by the increase of sovereign risk and the drop in domestic demand. In this context, total assets registered a small year-on-year increase of 0.5%.

Customer funds had a strong performance, growing by 17.7%. On-balance sheet customer funds (which include deposits, bonds and other securities placed with clients) declined by 11.6%, due to the reduction in the portfolio of certificates of deposit following the rating downgrade of the Portuguese Republic. Off-balance sheet customer funds remained broadly at the 2009 level, totalling EUR 16.2 billion. Customer loans (including securitisations) increased by 0.6%, decelerating when compared to 2009.

Activity Indicators (euro million)

	Dec.09	Dec.10	Chg. %
Total Assets [(1)]	**98,689**	**99,225**	**0.5**
Net Assets	**74,715**	**75,964**	**1.7**
Customer Loans (including securitised)	**48,999**	**49,293**	**0.6**
Loans to Indivuals	17,135	17,130	0.0
- Mortgage	14,422	14,443	0.1
- Other Loans to Individuals	2,713	2,687	-1.0
Corporate Lending	31,864	32,163	0.9
Total Customer Funds	**51,621**	**47,437**	**-8.1**
On-Balance Sheet Customer Funds	35,331	31,232	-11.6
- Deposits	22,594	26,604	17.7
- Debt Securities Placed with Clients	12,737	4,628	-63.7
Off-Balance Sheet Customer Funds	16,290	16,205	-0.5

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

Corporate loans remained the fastest growing component, rising by EUR 300 million year-on-year, while mortgage loans and other loans to individuals remained practically flat.

The structure of the credit portfolio remained unchanged: corporate loans, mortgage loans, and other loans to individuals maintained their relative positions, accounting for 65%, 29%, and 6%, respectively, of the total.

At year-end the loan portfolio revealed a deteriorating trend in loan loss levels: overdue loans over 90 days increased to 2.30% of customer loans (Dec. 09: 1.89%), with the respective coverage standing at 163.5% (Dec. 09: 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 34 basis points year-on-year, to 3.76.

Credit Quality

	2009	2010	Change	
			Abs.	%
(euro million)				
Customer Loans (gross)	41,315	42,237	922	2.2%
Overdue Loans	851.7	1,036.9	185.2	21.7%
Overdue Loans > 90 days	779.1	972.7	193.6	24.9%
Overdue and Doubtful Loans (BoP)[(a)]	1,113.0	1,379.5	266.5	23.9%
Provisions for Credit	1,413.2	1,590.0	176.8	12.5%
(%)				
Overdue Loans /				
Customer Loans (gross)	2.06	2.45	0.39p.p.	
Overdue Loans >90 days /				
Customer Loans (gross)	1.89	2.30	0.41p.p.	
Overdue & Doubtful Loans[(a)]/				
Customer Loans (gross)	2.69	3.26	0.57p.p.	
Coverage of Overdue Loans	165.9	1,53.4	-12.5p.p.	
Coverage of Overdue Loans > 90 days	181.4	1,63.5	-17.9p.p.	
Coverage of Overdue & Doubtful Loans	127.0	1,15.3	-11.7p.p.	
Provisions fopr Credit (Balance) /				
Customer Loans	3.42	3.76	0.34p.p.	

(a) According to BoP circular letter nº 99/2003/DSB

6.6.2. Results and Productivity

Banco Espírito Santo's net income in 2010 was EUR 256.0 million, corresponding to a year-on-year decrease of 30.6%. This result is influenced by two non recurrent events in 2009: the capital gain on the sale of 24% of BES Angola (EUR 138 million net of tax); and an additional provision charge (EUR 78 million net of tax). Excluding these items from the 2009 results, net income for the year would have totalled EUR 308.8 million, representing a year-on-year decline of 17.1%.

Commercial Banking income, which translates recurrent income generation, decreased by 15.7% year-on-year, essentially due to the reduction in net interest income.

Activity Results (euro million)

	2009	2010	Change	
			Abs.	%
Net Interest Income	909.1	662.4	-246.7	-27.1
+ Fees and Commissions	468.7	498.6	29.9	6.4
= Commercial Banking Income	**1,377.8**	**1,161.0**	**-216.8**	**-15.7**
+ Capital Markets and Other Results	475.8	344.2	-131.6	-27.7
= Banking Income	**1,853.6**	**1,505.2**	**-348.4**	**-18.8**
- Operating Costs	812.2	861.9	49.7	6.1
= Operating Income	**1,041.4**	**643.3**	**-398.1**	**-38.2**
- Net Provisions	606.5	443.6	-162.9	-26.8
Credit	461.7	276.0	-185.7	-40.2
Securities	64.3	66.8	2.5	4.0
Other	80.5	100.8	20.3	25.2
= Income before Taxes	**434.9**	**199.7**	**-235.2**	**-54.1**
- Taxes	66.1	-56.3	-122.4	-185.5
= Net Income	**368.8**	**256.0**	**-112.8**	**-30.6**

The year's provision charge totalled EUR 443.6 million, down by 27% year-on-year. Provisions for credit declined by EUR 185.7 million (note that a EUR 106 million exceptional provision charge had been made in 2009), while the impairment for securities was reinforced by EUR 66.8 million. Other provisions totalled EUR 100.8 million, of which more than half concern provisions for impairment losses in property received in lieu of payment of bad loans.

Productivity indicators and efficiency indicators were negatively influenced by the reduction in commercial banking income and trading results. Hence the Total cost to income and the Commercial cost to income increased by 13.5 p.p. and 15.3 p.p. respectively. Total assets per employee reached EUR 14.7 million.

Productivity and Efficiency Indicators

	Dec.09	Dec.10	Change
Cost to Income	43.8%	57.3%	13.5p.p.
Cost to Income (ex-markets)	58.9%	74.2%	15.3p.p.
Total Assets[(1)] per Employee (€,000)	14,870	14,700	-1.1%

(1) Net Asset + Asset Management + Securitised Credit

6.6.3. Activity of International Branches

BES's branches abroad support the Group in the development of its international strategy. A brief description of the activity of BES's international branches in 2010 is given below.

Spain Branch

BES Spain Branch had a positive performance in 2010, despite the difficult economic context in Spain. Main highlights are: (i) business consolidation at the level of both international transactions and customer funds (on- and off-balance sheet); (ii) sales efforts produced a 9.7% YoY increase in client acquisition; (iii) continued reinforcement of the prudent credit risk management, implying a provisioning cost for the year of ca. 89 bp.

Spreads increased significantly, partially neutralising the absence of gains from declining interest rates, as happened in 2009. Margins on liabilities were under pressure due to strong competition over customer funds, driving up the cost of funding. Despite the efforts made to sustain the margins, cost containment and a moderate provisioning charge allowed a significant improvement in the years' net profit, which reached EUR 5.9 million (2009: 17.3 million loss).

London Branch

BES London Branch (United Kingdom) concentrates its activity in wholesale banking in the European market. As a specialised credit unit, the Branch acts with selectivity and maintains a conservative risk management policy. Under the adverse climate lived in the financial markets in 2010, the volume of funds raised declined, being particularly penalised by the successive rating downgrades occurred since April. In view of these adverse conditions, and also to meet the credit portfolio resizing objective set for the international area, the balance sheet was adjusted, with net assets decreasing by 46% year-on-year. The Branch's focus on the implementation of a deleveraging plan permitted to reduce the loan book by 7%. This plan, although implying a reduction in banking income, also enabled a lower provisioning charge. Hence net profit for the year was EUR 27 million (2009: EUR 33.9 million). The Branch successfully implemented a new information system, which became operational at year-end.

New York Branch

BES New York Branch concentrates its activity in wholesale banking, mainly in the US and Brazil. The restrictions on market liquidity and difficulties in access to funding, which became increasingly acute following the successive downgrades of the Portuguese Republic's ratings, had a negative impact on the placement of the certificates of deposit and commercial paper programmes during the year. These adverse market conditions required increased prudence in business development and focus on risk monitoring and management. Nevertheless, the Branch's net profit increased by 259% in 2010, to EUR 11.0 million (2009: EUR 3.1 million). This excellent performance was achieved despite a 31% reduction in the credit portfolio and consequent 42% reduction of the balance sheet, which are in line with the deleveraging plan implemented. Banking income grew by 53% year-on-year, essentially underpinned by a 75% increase in fees and commissions

Cape Verde Branch

BES Cape Verde Branch focuses on corporate banking activity, on public-private joint infrastructure investments (ports, roads, electricity and water) as well as on the tourism sector. Customer deposits increased during the year, while customer loans declined, as foreseen in the amortisation schedule. At the beginning of the second half of 2010 Banco Espírito Santo Cabo Verde inaugurated its premises, following the Ministry of Finance's order authorising the incorporation of a new bank in the islands.

7 Financial Statements

7.1. Consolidated Financial Statements

Consolidated Balance Sheet

(euro thousand)

	Dec.09	Dec.10
Assets		
Cash and deposits at Central Banks	2,192,317	930,505
Deposits with banks	610,574	557,972
Financial assets held for trading	4,459,484	3,942,061
Financial assets at fair value through profit or loss	1,002,301	1,424,331
Available-for-sale financial assets	8,531,600	11,774,881
Loans and advances to banks	7,997,807	4,245,436
(of which of the European system of Central Banks)	(3,750,026)	(1,200,424)
Loans and advances to customers	48,978,847	50,829,123
(Provisions)	(1,552,307)	(1,776,988)
Held-to-maturity investments	2,541,829	2,458,800
Financial assets with repurchase agreements	-	-
Hedging derivatives	455,115	447,304
Non-current assets held for sale	407,585	574,550
Investment propreties	-	-
Proprety and equipment	658,773	809,037
Intangible assets	137,885	233,537
Investments in associates	793,815	961,908
Current income tax assets	20,929	99,396
Deferred income tax assets	187,871	283,367
Other assets	3,320,468	4,083,219
TOTAL ASSETS	**82,297,200**	**83,655,427**
Liabilities		
Deposits from central banks	3,817,643	7,964,820
(of which of the European System of Central Banks)	(2,005,438)	(5,218,306)
Financial liabilities helding for trading	1,561,143	2,088,007
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	6,895,720	6,380,592
Due to customers	25,446,450	30,819,220
Debt securities issued	33,101,099	24,109,939
Financial liabilities to transferred assets	-	-
Hedging derivatives	253,148	228,944
Non core liabilities held for sale	21,609	5,411
Provisions	179,851	214,706
Current income tax liabilities	133,616	25,324
Deleted income tax liabilities	79,216	115,660
Capital instruments	-	-
Subordinated debt	2,639,071	2,291,833
Other liabilities	1,229,751	1,934,723
TOTAL LIABILITIES	**75,358,317**	**76,179,179**
EQUITY		
Share capital	3,500,000	3,500,000
Share premium	1,085,399	1,085,398
Other capital instruments	-	269,953
Treasury stock	(25,083)	-
Preference shares	600,000	600,000
Fair value reserve	300,833	(9,580)
Other reserves and retained earnings	672,063	978,547
Profit for the period attributable to equity holders of the bank	522,114	510,520
Prepaid dividends	-	-
Minority interests	283,557	541,410
TOTAL EQUITY	**6,938,883**	**7,476,248**
TOTAL LIABILITIES AND EQUITY	**82,297,200**	**83,655,427**

Chief Account

The Board of Directors

Consolidated Income Statement

(euro thousand)

	Dec.09	Dec.10
Interest and similar income	3,837,533	3,727,898
Interest expense and similar charges	2,636,718	2,563,940
Net Interest Income	**1,200,815**	**1,163,958**
Dividend income	89,361	193,292
Fee and Commission income	786,453	886,808
Fee and Commission expense	106,311	117,475
Net gains from financial assets at fair value through profit or loss	(51,412)	(191,470)
Net gains from available-for-sale financial assets	189,239	364,436
Net gains from foreign exchange differences	58,533	46,731
Net gains/ (losses) from sale of other assets	156,909	34,032
Other operating income and expense	95,831	(13,634)
Operating income	**2,419,418**	**2,366,678**
Staff costs	565,895	628,320
General and administrative expenses	402,554	441,057
Depreciation and amortisation	87,261	100,092
Provisions impairment net of reversals	53,160	49,343
Loans impairment net of reversals	539,941	351,809
Impairment on other financial assets net of reversals	71,875	76,332
Impairment on other assets net of reversals	43,798	56,135
Negative consolidation differences	-	-
Equity accounted earnings	29,977	37,175
Net income before income tax and minorities	**684,911**	**700,765**
Income tax		
Current tax	178,681	59,673
Deferred Tax	(68,862)	(15,899)
Net income	**575,092**	**656,991**
ow: profit after taxes of discontinued operations	(10,326)	(9,036)
Minority interests	52,978	146,471
Consolidated net income for the period	**522,114**	**510,520**

Chief Account

The Board of Directors

7.2. Individual Financial Statements

Individual Balance Sheet

(euro thousand)

	Dec.10			
	Amount before provisions, impairmentand and depreciations	**Provisions, impairmentand, depreciations**	**Net amount**	**Dec.09**
ASSETS				
Cash and deposits at Central Banks	488,677	-	488,677	1,686,023
Deposits with banks	262,986	-	262,986	322,297
Financial assets held for trading	2,077,134	-	2,077,134	3,344,104
Financial assets at fair value through profit or loss	1,780,171	-	1,780,171	922,558
Available-for-sale financial assets	12,214,540	120,278	12,094,262	7,174,460
Loans and advances to banks	8,472,132	34	8,472,098	12,048,539
Loans and advances to customers	42,236,669	1,140,856	41,095,813	40,379,161
Held-to-maturity investments	1,717,758	48,490	1,669,268	2,034,947
Repurchase agreements	-	-	-	-
Derivatives for risk management purposes	499,544	-	499,544	579,895
Non-current assets held for sale	619,367	89,781	529,586	348,740
Investment propreties	-	-	-	-
Proprety and equipment	1,082,027	702,486	379,541	402,935
Intangible assets	578,322	458,132	120,190	104,988
Investments in associates	1,884,529	107,929	1,776,600	1,700,598
Current income tax assets	77,669	-	77,669	5,009
Deferred income tax assets	403,621	-	403,621	336,877
Other assets	4,242,226	5,513	4,236,713	3,324,179
TOTAL ASSETS	**78,637,372**	**2,673,499**	**75,963,873**	**74,715,310**
LIABILITIES				
Deposits from central banks	7,391,791	-	7,391,791	3,378,514
Financial liabilities helding for trading	1,658,661	-	1,658,661	1,361,876
Other financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from banks	13,565,577	-	13,565,577	11,560,867
Due to customers	26,591,014	-	26,591,014	22,594,175
Debt securities issued	14,054,753	-	14,054,753	24,984,918
Financial liabilities to transferred assets	2,043,754	-	2,043,754	-
Derivatives for risk management purposes	277,407	-	277,407	370,338
Non core liabilities held for sale	-	-	-	-
Provisions	628,489	-	628,489	627,174
Current income tax liabilities	2,871	-	2,871	108,447
Deleted income tax liabilities	154,794	-	154,794	185,109
Equity instruments	-	-	-	-
Subordinated debt	2,504,508	-	2,504,508	3,419,742
Other liabilities	832,674	-	832,674	613,200
TOTAL LIABILITIES	**69,706,293**	**-**	**69,706,293**	**69,204,360**
EQUITY				
Share capital	3,500,000	-	3,500,000	3,500,000
Share premium	1,080,257	-	1,080,257	1,080,258
Other equity instruments	868,193	-	868,193	-
Treasury stock	-	-	-	(25,083)
Fair value reserve	8,241	-	8,241	213,390
Other reserves and retained earnings	544,892	-	544,892	373,540
Profit for the year	255,997	-	255,997	368,845
Dividens paid	-	-	-	-
TOTAL EQUITY	**6,257,580**	**-**	**6,257,580**	**5,510,950**
TOTAL LIABILITIES AND EQUITY	**75,963,873**	**-**	**75,963,873**	**74,715,310**

Chief Account

The Board of Directors

Income Statement

(euro thousand)

	Dec.09	Dec.10
Interest and similar income	2,982,768	2,698,091
Interest expense and similar charges	2,073,629	2,035,732
Net Interest Income	**909,139**	**662,359**
Dividend income	317,863	319,083
Fee and Commission income	562,252	626,386
Fee and Commission expense	114,347	146,407
Net gains from financial assets at fair value through profit or loss	(46,604)	(282,351)
Net gains from available-for-sale financial assets	180,381	330,410
Net gains from foreign exchange differences	(129,243)	(15,860)
Net gains from sale of other assets	204,562	(12,101)
Other operating income and expense	(30,449)	23,600
Operating Income	**1,853,554**	**1,505,119**
Staff costs	410,580	435,286
General and administrative expenses	327,896	344,918
Depreciation and amortisation	73,703	81,687
Provisions impairment net of reversals	97,170	17,406
Loans impairment net of reversals	406,384	301,992
Impairment on other financial assets net of reversals	64,278	66,830
Impairment on other assets net of reversals	38,669	57,450
Net income before tax	**434,874**	**199,550**
Income tax		
Current tax	149,068	5,744
Deferred tax	(83,039)	(62,191)
Net income	**368,845**	**255,997**
ow: net income after discontinued operations	(14,169)	(12,956)

Chief Account

The Board of Directors

8 Final Notes

8.1 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, 2009 and 2010 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, 2009 and 2010 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 25th, 2011;

IV. the annual report describes faithfully the evolution of the businesses, the performance and the financial position of BES and BES Group in 2010, as well as the main risks and uncertainties with which they are faced.

8.2 Own Shares

In accordance with article 66 (5-d)) of the Companies Code, BES states that transactions involving the Bank's own shares in 2010 related exclusively to transactions carried out within the scope of its Share Based Incentive System (SIBA).

	Number of Shares	Price (euro)	Total (euro)
Balance as at December 31st, 2009	-	-	-
Transactions during the year*			
Purchases	1,276,261	12,054	15,384,473
Disposals	1,276,261	2,313	2,952,278
Balance as at December 31st, 2010	-	-	-

* Includes stock exchange and OTC transactions

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

The last series of the last plan attributed (2004) matured on December 29th, 2010, thus terminating the application of the SIBA. Therefore, on December 31st, 2010, the amount carried under the "Treasury Stock" balance sheet item was zero.

8.3. 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 Reserves	26,000,000.00
For Distribution to Shareholders	147,000,000.00
To Other Reserves	82,997,121.83
Net Income	**255,997,121.83**

The dividend to be distributed on the 2010 net income corresponds to a gross value per share of EUR 0.126 applicable to all the shares representative of BES's share capital.

The proposed dividend represents a consolidated payout ratio of 28.8% and a dividend yield of 4.4% at the year-end closing price.

8.4. Reading guide to sustainability information

Information on the BES Group's sustainability management and performance can be found in the Annual Report 2010, in the Sustainability Brochure and in the sustainability section of the corporate website. This information is reported in accordance with of the Global Reporting Initiative (GRI)'s guidelines on sustainability reporting, third generation, and the principles of standard AA1000APS – as was the case for the Sustainability Report 2009. The report was prepared for level A+ and benefited from assurance by KPMG SROCS, an independent entity, according with the principles laid down by ISAE 3000 (International Standard on Assurance Engagements 3000).

The scope of the reported sustainability information covers all the companies considered to be part of the BES Group according to the consolidation principle; in other words, it includes all BES Group companies controlled by BES, which account for 85% of the Group's employees in 2010.

For additional information on the scope of indicators in GRI's G3 guidelines, please see the GRI table available at www.bes.pt.

The purpose of the reported information is to answer all GRI's requirements and indicators (social, environmental and economical) and this entity's Financial Services Sector Supplement, except those that, by their nature or content, have been rated as lacking relevance for the BES Group's activity.

This judgment was based on a permanent dialogue with the most relevant stakeholders for the BES Group such as shareholders, regulators, clients, employees and investors, which have also benefited from targeted communications initiatives. The sustainability brochure and the website make the information on sustainability available to the remaining relevant stakeholders such as suppliers, the media, NGOs and the public at large.

8.5. 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 25th, 2011
The Board of Directors of Banco Espírito Santo

Alberto Alves de Oliveira Pinto (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Bruno Bernard Marie Joseph de Laage de Meux (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
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
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
Jean-Yves José Hocher
Antônio Bornia
Marc Olivier Tristan Oppenheim

Appendix

Appendix I – The Sustainability Accounts

Anexo I - Sustainability Accounts

	2006	2007	2008	2009	2010
Total Workforce					
BES Group total no. of employees (*)	8,428	8,952	9,431	8,902	9,858
Total no. of Employees (Human Resources information scope)	8,804	8,115	8,389	8,155	8,394
Location (no. of Employees)					
Europe	7,883	8,306	8,828	8,104	8,530
America	255	280	160	352	384
Africa	273	349	424	427	923
East	17	17	19	19	21
Labour Contract (no. of Employees)					
Permanent	7,500	7,051	7,276	7,451	7,762
Fixed term	928	696	731	462	406
Temporary	315	232	180	178	179
Traineeship	61	136	202	64	47
Function (no. of Employees)					
Management	718	766	813	937	1,007
Head of Department	1,208	911	919	915	994
Specific	3,240	3,229	3,397	3,259	3,371
Administrative	3,518	3,155	2,995	2,930	2,901
Auxiliary	120	125	110	114	121
Continent (no. of Employees)					
Europe	-	7,572	7,653	7,521	7,681
America	-	148	158	182	202
Africa	-	367	423	452	511
Healthcare (no. of Employees)					
Medical exams	3,869	4,029	3,802	3,999	3,813
Medical acts	10,062	9,988	10,580	10,408	11,116
Nursing acts	4,080	4,136	4,135	4,025	6,519
Total	18,011	18,153	18,517	18,432	21,448
Employees covered by Collective Wage Agreement ("ACT") (no. of Employees)					
Total no. of Employees	-	8,179	8,234	8,155	8,394
No. of Employees covered by ACT	-	6,723	6,939	7,170	8,157
% of Employees covered by ACT	-	82.2%	84.30%	87.90%	97.18%
Unionised Employees (no. of Employees) (no. of Employees)					
Total no. of Employees	-	8,179	8,234	8,155	8,394
No. of Unionised Employees	-	6,710	6,715	6,052	6,923
% of Unionised Employees	-	82.0%	81.60%	74.20%	82.48%
Absenteeism (%)					
Lost Days Rate	-	0.2	0.4	0.3	0.23%
Absenteeism Rate	-	3.8	3.5	3.8	3.56%

(*) Employees with permanent and fix term contracts

Breakdown of Employees by gender and age according to professional categories (%)

	2006	2007	2008	2009	2010
Management					
Women	-	25.1	26.1	28.1	29.6
Men	-	74.9	73.9	71.9	70.4
< 30 years	-	2.1	1.5	1.92	2
30 to 50 years	-	83.3	84.5	82.69	81.2
> 50 years	-	14.6	14	15.38	16.7
Heads of Department					
Women	-	32.4	32.3	34	35.5
Men	-	67.6	67.7	66	64.5
< 30 years	-	6.6	4.8	4.4	5.1
30 to 50 years	-	83.2	84.8	84.2	82.5
> 50 years	-	10.2	10.4	11.4	12.4
Specific					
Women	-	45.8	46.4	48	48.4
Men	-	54.2	53.6	52	51.6
< 30 years	-	28.5	29.4	24.5	24.6
30 to 50 years	-	64.3	63.5	67.1	66.5
> 50 years	-	7.1	7.1	8.4	8.9
Administrative					
Women	-	51.5	50.6	50.4	49.9
Men	-	48.5	49.4	49.6	50.1
< 30 years	-	26.0	22.6	18.9	19.6
30 to 50 years	-	57.2	57.3	58.2	55.7
> 50 years	-	16.8	20.1	23	24.7
Auxiliary					
Women	-	40.0	45.5	44.7	41.3
Men	-	60.0	54.5	55.3	58.7
< 30 years	-	11.2%	12.7	19.1	19.8
30 to 50 years	-	35.2%	27.8	25.5	37.2
> 50 years	-	53.6%	60	55.5	42.9

	Europe					America					Africa					BES Group				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Staff Turnover (%)																				
BES Group (*)																				
Women	7.8	7.8	16.7	9.5	10.1	23.5	23.5	33.3	28.1	21.7	0.144	14.4	26.2	36.8	49.2	8.5	8.5	17.4	11.5	12.9
Men	9.1	9.1	13.6	8.1	9	34.4	34.4	28.4	36	24.0	0.183	18.3	23.3	41.5	33.7	10.3	10.3	14.5	10.5	10.9
< 30 years	-	10.5	9.1	10.5	5.6	-	22.7	25.9	22.7	16.8	-	26.4	19.1	32.1	29.4	-	11.5	9.9	6.8	7.4
30 to 50 years	-	6.4	5.5	6.4	3.8	-	30.4	19.6	30.4	6.4	-	6.4	5.4	7.1	11.7	-	7.1	5.8	3.9	4.4
> 50 years	-	0.3	0.4	0.3	0.08	-	4.9	0.6	4.9	0	-	0.0	0	0	0.2	-	0.4	0.4	0.2	0.1
Average no. of Training Hours per Employee																				
Management	-	26.1	56	12	19	-	7.7	3	34	18	n.a.	n.a.	1.1	1.0	1,1	15.0	26.7	29.9	12.0	18.2
Heads of Department	-	19.5	33	37	64	-	32.4	17	78	46	n.a.	n.a.	1.0	3.9	5.8	12.0	21.2	26.1	37.8	58.6
Specific	-	52.5	70	38	44	-	78.8	93	100	97	n.a.	n.a.	0.4	0.9	4.7	125.0	56.4	52.1	36.1	42.1
Administrative	-	38.8	44	23	36	-	11.7	36	32	16	n.a.	n.a.	1.9	3.8	4.4	127.0	39.2	38.8	22.2	35.1
Auxiliary	-	0.2	1	12	0	-	60.0	240	384	204	n.a.	n.a.	0.0	0.0	1.0	-	8.5	18.0	17.6	8.8

(*) BES Group: Europe – BES Portugal, BES Açores, BESI Portugal, Banco Best, ESAF, BES Espanha, BESI Espanha
America – BESI Brasil
Africa – BES Angola

Promotions (no. of Employees)

	BES Group				
	2006	2007	2008	2009	2010
Change of function	122	195	126	81	83
Merit	1,175	1,402	1,295	665	834
Seniority	166	171	131	175	197
Total no. of Employees Promoted	1,463	1,768	1,552	921	1,114

Performance Assessment

	2006		2007		2008		2009		2010	
Number of Employees who received information about performance assessment	-	-	6,711	82%	6,596	80%	6,777	83%	7,339	87%
Number of Employees who receive information about career management	-	-	5,982	73%	6,067	74%	6,201	76%	7,198	86%

Loans Granted to Employees

(euro million)

	2006	2007	2008	2009	2010
Mortgage credit	68,500	84,461	77,505	68,185	59,183
Personal loans					
Consumer loans	22,888	18,746	19,074	32,961	29,171
Social support	199	382	1,068	2,719	2,702

Environmental

	2006	2007	2008	2009	2010	09/10
Energy [1]						
Total electricity consumption (GJ)	186,535.00	198,628.00	210,389.00	216,959.45	218,751.89	0.83%
Total electricity consumption (kwh)	-	55,174,418.00	58,441,425.00	60,266,513.00 *	60,764 414.16	0.83%
Data Centre electricity consumption (kwh)	-	8,667,135.00	8,809 344.00	9,464,979.00	11,054,623.00	16.80%
Electricity consumption (kwh/employee)[2]	7,993.00	7,451.00	7,959.00	8,194.00 *	7,786.62	-4.97%
Natural gas consumption (GJ)	469.00	964.00	373.00	887.25	740.30	-16.56%
Natural gas consumption (N.m^3)	12,022.00	24,703.00	9,555.00	22,750.00	18,982.00	-16.56%
Butane gas consumption (Kg)	-	7,290	7,290.00	4,860.00	3,105.00	-36.11%
Butane gas consumption (GJ)	-	345.00	345.00	229.56	146.66	-36.11%
Transport [1]						
No. of vehicles	968.00	1,367.00	1,085.00	1,154.00 **	1,212.00	5.03%
Fuel (GJ)	-	71,488	77,948.00	72,028.00 **	76,774.92	6.59%
No. of plane trips	1,429.00 **	2,660.00 **	2,874.00 **	3,090.00 **	3,356.00	8.61%
Water [1]						
Water consumption (m^3)	-	92,058.00	101,514.00	96,927.00	99,105.00	2.25%
Water consumption per employee (m^3/employee)	-	14.00	16.00	14.00	14.48	3.39%
Emission of greenhouse gases (tCO_2e) [1]						
Emissions from trips in company cars	3,289.00	3,239.00	3,421.00	3,500.00	3,773.00	7.80%
Emissions of fluorinated gases from air conditioning equipement	452.00	1,481.00	1,477.00	1,447.00	1,447.00	0.00%
Emissions from natural gas kitchen equipement	25.00	121.00	59.00	107.00	87.00	-18.69%
Emissions from emergency generators	18.00	2.00	31.00	0.00	0.00	-
Direct emissions (Scope 1)	3,784.00	4,780.00	4,958.00	5,055.00	5,307.00	4.99%
Emissions from the production of electricity purchased	20,882.00	20,402.00	22,454	20,561.00 *	13,975.00	-32.03%
Indirect emissions (Scope 2)	20,882.00	20,402.00	22,454	20,561.00 *	13,975.00	-32.03%
Total Scope 2 standardised	19,812.00	20,913.00	22,128.00	23,043.00	23,233.00	0.82%
Total (Scope 1 and 2)	24,666.00	25,182.00	27,142.00	25,616.00 *	19,282.00	-24.26%
Total (Scope 1 and 2) standardised ***	23,596.00	25,693.00	27,086.00	28,098.00	28,540.00	1.57%
Emissions from Employees' home/work daily trips / business trips by plane **	1,063.00 **	1,542.00 **	2,140.00 **	3,265.00	2,510.00	-23.12%
Emissions from Employees' home/work daily trips	7,795.00	7,119.00	7,090.00	6,932.00	6,945.00	0.19%
Indirect emissions (Scope 3) **	8,858.00 **	8,661.00 **	9,230.00 **	10,197.00 **	9,455.00	-7.28%
Consumption of Materials (paper and other consumables) [3]						
White paper for internal use (tonnes)	399.20	443.54	441.25	480.44	416.73	-13.26%
White paper for internal use (no of reams/employee)	25.50	25.20	24.92	27.60	23.51	-14.82%
Recycle paper for internal use (tonnes)	10.90	16.60	16.44	9.86	17.68	84.94%
Recycle paper for internal use (no of reams/employee)	0.70	1.02	0.93	0.55	1.00	81.34%
Forms - printing & finishing (tonnes)	346.30	375.50	412.83	384.43	300.53	-21.82%
Forms - printing & finishing (no of reams)	139,074.00	150,780.00	165,785.00	154,387.00	120,692.85	-21.82%
Consumables used (units)	37,077.00	29,711.00	38,252.00	50,405.00	47,356.00	-6.05%
Waste Management [1]						
Paper sent for recycling (tonnes)	746.00	470.88	343.71	478.31	289.18	-39.54%
Cardboard sent for recycling (tonnes)	9.70	34.29	54.24	61.35	57.11	-6.91%
Consumables collected (units)	3,987.00	8,728.00	6,545.00	4,023.00	22,860.00	468.23%

1) BES Portugal
2) BES Portugal, does not include Data Centre consumption
3) BES Portugal, BAC, BEST, ESAF, BESI Portugal
* Value adjusted for electricity consumption
** Value adjusted for internal corporate mergers
*** 2005 to 2010 values recalculated using a normalised emission factor based on the last 5 years

Net profit

(euro million)

	Domestic	International
2010	306,3	204,2
2009	342,8	179,3
2008	259	143
2007	465,6	141,5
2006	327,5	93,2

Stakeholders – Value Creation

(euro million)

	2006	2007	2008	2009	2010
Shareholders (dividends)	200	240	80	163	140*
Employees (remuneration and formation)	478.2	502.1	526.0	565.9	628.3
Clients (loans)	40.6	47.4	52.0	54.0	55.7
Suppliers (general administrative costs)	344.1	378.8	402.6	402.6	441.05
Community (donations)	2.7	4.0	3.2	4.0	4.5
State (taxes)	135.4	152.5	83.5	109.8	59.7

* Total tax charge (income tax, Banking sector social security system (CAFEB), VAT and other indirect taxes) was EUR 132 Mn (2009: EUR 184.3 Mn)

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental
Av. Praia da Vitória, 71 - A, 11°
1069-006 Lisboa
Portugal

Telefone: +351 210 110 000
Fax: +351 210 110 121
Internet: www.kpmg.pt

Independent Limited Assurance Report

**(This Report is a free translation to English from the Portuguese version
In case of doubt or misinterpretation the Portuguese version will prevail)**

To the Executive Board of Directors of
Grupo Banco Espírito Santo S.A.

Introduction

1. We were engaged by the Executive Board of Directors of Grupo Banco Espírito Santo S.A., ("GBES") to provide limited assurance on the sustainability information included in the Annual Report ("the Report") of GBES for the year ended 31 December 2010.

Responsibilities

2. The Executive Board of Directors of GBES is responsible for:

   - The preparation and presentation of the sustainability information included in the Report in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative (GRI), as described in the Report, and the information and assertions contained within it;

   - For determining the GBES objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues, in accordance with the principles of inclusiveness, materiality and response of AA1000APS (2008); and

   - For establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

3. Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the sustainability information contained in the Report for the year ended 31 December 2010, is free from material misstatement.

Scope

4. A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of sustainability information presented in the Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of GBES processes for determining the material issues for GBES key stakeholder groups;
- Interviews with senior management and relevant staff at group level and selected business unit's level concerning sustainability strategy and relevant policies applied, and the implementation of these across the different business areas;
- Interviews with relevant staff, in corporate and business units, responsible for providing the sustainability information in the Report;
- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to conclude whether all the relevant data derived from such underlying sources has been included in the Report; and
- Reading the information presented in the Report to conclude its adequacy with our overall knowledge of, and experience with, the sustainability performance of GBES.

5. The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

Conclusion

6. Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the sustainability information included in the Report of GBES for the year ended 31 December 2010 is not presented fairly, in all material respects with:

   - The alignment of GBES with inclusiveness, materiality and response principles of AA1000APS (2008); and

   - The compliance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative (GRI) as described in chapter 8 "Final Notes" of the Report.

7. Our limited assurance report is made solely to GBES in accordance with the terms of our engagement. Our work has been prepared only with the objective of stating to GBES those matters we have been engaged to state in this limited assurance report and for no other purpose. We do not accept or assume responsibility to any third party than GBES for our work, for this limited assurance report, or for the conclusions we have reached.

Lisbon, 4 March 2011

KPMG & Associados,
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)

Nighttime for BES in Toronto // Sunrise for BES in Lisbon

II
Consolidated Financial Statements and Notes to the Financial Statements

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

1 Consolidated Financial Statements and Notes to the Financial Statement

Consolidated Income Statement for the Years ended 31 December 2010 and 2009

(in thousands of euro)

	Notes	31.12.2010	31.12.2009
Interest and similar income	5	3,727,898	3,837,533
Interest expense and similar charges	5	2,563,940	2,636,718
Net interest income		**1,163,958**	**1,200,815**
Dividend income	8	193,292	89,361
Fee and commission income	6	886,808	786,453
Fee and commission expense	6	(117,475)	(106,311)
Net gains from financial assets at fair value through profit or loss	7	(191,470)	(51,412)
Net gains from available-for-sale financial assets	8	364,436	189,239
Net gains from foreign exchange differences	9	46,731	58,533
Net gains from sale of other financial assets		(12,369)	(27,377)
Other operating income and expense	10	(13,634)	95,831
Operating income		**2,320,277**	**2,235,132**
Staff costs	11	628,320	565,895
General and administrative expenses	13	441,057	402,554
Depreciation and amortisation	25 and 26	100,092	87,261
Provisions net of reversals	33	49,343	53,160
Loans impairment net of reversals	21	351,809	539,941
Impairment on other financial assets net of reversals	19, 20 and 22	76,332	71,875
Impairment on other assets net of reversals	24, 26 and 28	56,135	43,798
Operating expenses		**1,703,088**	**1,764,484**
Gains on disposal of investments in subsidiaries and associates	1	46,401	184,286
Share of profit of associates	27	37,175	29,977
Profit before income tax		**700,765**	**684,911**
Income tax			
Current tax	34	59,673	178,681
Deferred tax	34	(15,899)	(68,862)
		43,774	**109,819**
Profit for the year		656,991	575,092
Attributable to equity holders of the Bank		**510,520**	**522,114**
Attributable to minority interest	**38**	**146,471**	**52,978**
		656,991	575,092
Basic Earnings per Share (in Euro)	14	0.41	0.45
Diluted Earnings per Share (in Euro)	14	0.41	0.49

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

Consolidated Statement of Comprehensive Income for the Years Ended 31 December 2010 and 2009

(in thousands of euro)

	31.12.2010	31.12.2009
Profit for the year		
Attributable to equity holders of the Bank	510,520	522,114
Attributable to non- controlling interests	146,471	52,978
	656,991	575,092
Other comprehensive income for the year		
Exchange differences	16,621	(34,977)
Deferred taxes	(3,017)	16,883
	13,604	(18,094)
Available-for-sale financial assets		
Gains/ (losses) arising during the year	(45,535)	826,209
Reclassification adjustments for gains/ (losses) included in the profit or loss	(334,634)	(160,370)
Deferred taxes	64,787	(96,985)
	(315,382)	568,854
Total comprehensive income for the year	355,213	1,125,852
Attributable to equity holders of the Bank	**206,221**	**1,076,121**
Attributable to non-controlling interests	**148,992**	**49,731**
	355,213	1,125,852

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

Consolidated Balance Sheet as at 31 December 2010 and at 31 December 2009

(in thousands of euro)

	Notes	31.12.2010	31.12.2009
Assets			
Cash and deposits at central banks	15	930,505	2,192,317
Deposits with banks	16	557,972	610,574
Financial assets held for trading	17	3,942,061	4,459,484
Other financial assets at fair value through profit or loss	18	1,424,331	1,002,301
Available-for-sale financial assets	19	11,774,881	8,531,600
Loans and advances to banks	20	4,245,436	7,997,807
Loans and advances to customers	21	50,829,123	48,978,847
Held-to-maturity investments	22	2,458,800	2,541,829
Derivatives for risk management purposes	23	447,304	455,115
Non-current assets held for sale	24	574,550	407,585
Other tangible assets	25	809,037	658,773
Intangible assets	26	233,537	137,885
Investments in associates	27	961,908	793,815
Current income tax assets		99,396	20,929
Deferred income tax assets	34	283,367	187,871
Other assets	28	4,083,219	3,320,468
Total Assets		**83,655,427**	**82,297,200**
Liabilities			
Deposits from central banks	29	7,964,820	3,817,643
Financial liabilities held for trading	17	2,088,007	1,561,143
Deposits from banks	30	6,380,592	6,895,720
Due to customers	31	30,819,220	25,446,450
Debt securities issued	32	24,109,939	33,101,099
Derivatives for risk management purposes	23	228,944	253,148
Non-current liabilities held for sale	24	5,411	21,609
Provisions	33	214,706	179,851
Current income tax liabilities		25,324	133,616
Deferred income tax liabilities	34	115,660	79,216
Subordinated debt	35	2,291,833	2,639,071
Other liabilities	36	1,934,723	1,229,751
Total Liabilities		**76,179,179**	**75,358,317**
Equity			
Share capital	37	3,500,000	3,500,000
Share premium	37	1,085,398	1,085,399
Other equity instruments	37	269,953	-
Treasury stock	37	-	(25,083)
Preference shares	37	600,000	600,000
Fair value reserve	38	(9,580)	300,833
Other reserves and retained earnings	38	978,547	672,063
Profit for the year attributable to equity holders of the Bank		510,520	522,114
Total Equity attributable to equity holders of the Bank		**6,934,838**	**6,655,326**
Non-controlling interests	38	541,410	283,557
Total Equity		**7,476,248**	**6,938,883**
Total Equity and Liabilities		**83,655,427**	**82,297,200**

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

Consolidated Sratement of Changes in Equity for the Years Ended 2010 and 2009

(in thousands of euro)

	Capital	Share premium	Other equity instruments	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	Non--controlling interests	Total equity
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**
Other movements recognised directly in Equity:											
Changes in fair value, net of taxes	-	-	-	-	-	(310,413)	-	-	(310,413)	(4,969)	(315,382)
Exchange differences	-	-	-	-	-	-	6,114	-	6,114	7,490	13,604
Profit for the year	-	-	-	-	-	-	-	510,520	510,520	146,471	656,991
Total gains and losses recognised in the year	**-**	**-**	**-**	**-**	**-**	**(310,413)**	**6,114**	**510,520**	**206,221**	**148,992**	**355,213**
Costs related to capital increase	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Issue of other capital instruments (See Note 37)	-	-	269,953	-	-	-	-	-	269,953	50,000	319,953
Transfer to reserves	-	-	-	-	-	-	358,936	(358,936)	-	-	-
Dividends on ordinary shares [(a)]	-	-	-	-	-	-	-	(163,178)	(163,178)	-	(163,178)
Dividends on preference shares [(b)]	-	-	-	-	-	-	(33,480)	-	(33,480)	-	(33,480)
Share based payment scheme, net of taxes (see Note 12)	-	-	-	-	-	-	366	-	366	-	366
Settlement of share based payment scheme (see Note 12 and 37)				25,083			(22,131)		2,952	-	2,952
Other movements	-	-	-	-	-	-	(3,321)	-	(3,321)	3,575	254
Other changes in minority interest (see Note 38)	-	-	-	-	-	-	-	-	-	55,286	55,286
Balance as at 31 December 2010	**3,500,000**	**1,085,398**	**269,953**	**-**	**600,000**	**(9,580)**	**978,547**	**510,520**	**6,934,838**	**541,410**	**7,476,248**

(a) Corresponds to a dividend per share of euro 0.14 and euro 0.16 in 2010 and 2009, 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 December 2010 and 2009

(in thousands of euro)

	Notes	31.12.2010	31.12.2009
Cash flows from operating activities			
Interest and similar income received		3,554,852	3,870,807
Interest expense and similar charges paid		(2,432,654)	(2,659,680)
Fees and commission received		893,508	799,450
Fees and commission paid		(135,280)	(115,645)
Recoveries on loans previously written off		19,582	16,442
Contributions to pensions' fund		(58,027)	(34,209)
Cash payments to employees and suppliers		(940,989)	(1,041,955)
		900,992	**835,210**
Changes in operating assets and liabilities:			
Deposits with central banks		4,641,977	(1,028,824)
Financial assets at fair value through profit or loss		511,300	(128,946)
Loans and advances to banks		3,760,356	(3,475,332)
Deposits from banks		(531,821)	(738,645)
Loans and advances to customers		(2,113,843)	(2,832,085)
Due to costumers		5,224,421	(901,056)
Derivatives for risk management purposes		(84,390)	(100,526)
Other operating assets and liabilities		(1,226,270)	522,549
Net cash from operating activities before income tax		**11,082,722**	**(7,847,655)**
Income taxes paid		(246,432)	(102,788)
Net cash from operating activities		**10,836,290**	**(7,950,443)**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	1	(237,072)	(179,428)
Disposal of subsidiaries and associates	1	17,021	265,457
Dividends received		209,219	93,110
Acquisition of available-for-sale financial assets		(41,128,358)	(33,650,788)
Sale of available-for-sale financial assets		38,447,467	32,767,567)
Held to maturity investments		63,461	(394,728)
Acquisition of tangible and intangible assets		(321,229)	(137,696)
Sale of tangible and intangible assets		790	3,718
Net cash from investing activities		**(2,948,701)**	**(1,232,788)**
Cash flows from financing activities			
Capital increase		-	1,187,885
Issue of other equity instruments		319,953	-
Proceeds from issue of bonds		11,143,731	16,785,095
Reimbursement of bonds		(19,652,853)	(8,293,666)
Proceeds from issue of subordinated debt		84,279	257,133
Reimbursement of subordinated debt		(440,071)	(401,919)
Treasury stock		2,952	4,755
Dividends paid on ordinary shares		(163,178)	(79,656)
Dividends paid on preference shares		(33,480)	(33,480)
Net cash from financing activities		**(8,738,667)**	**9,426,147**
Net changes in cash and cash equivalents		**(851,078)**	**242,916**
Cash and cash equivalents at the beginning of the year		2,161,089	1,923,762
Effect of exchange rate changes on cash and cash equivalents		31,392	(5,589)
Net changes in cash and cash equivalents		(851,078)	242,916
Cash and cash equivalents at the end of the year		**1,341,403**	**2,161,089**
Cash and cash equivalents includes:			
Cash	15	306,203	218,595
Deposits at Central Banks	15	624,302	1,973,722
of which, restricted balances		(147,074)	(641,802)
Deposits with Banks	16	557,972	610,574
Total		**1,341,403**	**2,161,089**

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

Notes to the Consolidated Financial Statements as at 31 December 2010

(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 NYSE Euronext Lisbon. As at 31 December 2010, 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 828 branches throughout Portugal (31 December 2009: 799), international branches in London, Spain, New York, Nassau, Cayman Islands and Cape Verde, a branch in the Madeira Free Zone and ten overseas representative offices (31 December 2009: 12).

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
Aman Bank for Commerce and Investment Stock Company	2003	2010	Libya	Commercial banking	40.00%	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, SA (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	Macau	Commercial banking	99.75%	Full consolidation
Espírito Santo Bank (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	Emissão acções preferenciais e outros títulos	100.00%	Full consolidation
ES, Recuperação de Crédito, ACE (ESREC)	1998	1998	Portugal	Financing vehicle	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
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	57.81%	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	55.07%	Full consolidation
OBLOG Consulting, SA	1993	1993	Portugal	Software development	66.63%	Full consolidation
Europ Assistance - Companhia Portuguesa de Seguros, 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
Nanium, SA	1996	2010	Portugal	Industry	41.06%	Equity method
Ascendi Douro - Estradas do Douro Interior, S.A.	2008	2010	Portugal	Motorway concession	17.04%	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, S.A.	2010	2010	Portugal	Motorway concession	17.04%	Equity method
UNICRE - Instituição Financeira de Crédito, S.A.	1974	2010	Portugal	Non-bank finance company	17.50%	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%	Equity method
Coporgest, SA	2002	2005	Portugal	Holding company	25.00%	Equity method
Synergy Industry and Technology, S.A.	2006	2007	Spain	Holding company	26.00%	Equity method
Salgar Investments	2007	2007	Spain	Services provider	47.28%	Equity method
Só Peso Restauração e Hotelaria,S.A.	2006	2007	Portugal	Restaurants	9.77%	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
Espírito Santo Investment Sp, Z.o.o.	2005	2005	Poland	Services provider	100.00%	Full consolidation
Espírito Santo Investment Holding, Limited	2010	2010	United Kingdom	Holding company	100.00%	Full consolidation
Execution Holdings, Ltd	2001	2010	United Kingdom	Holding company	50.10%	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 e 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
Rua Bonita, Sp, zoo	2010	2010	Poland	Services provider	12.50%	Equity method
Espirito Santo Investimentos, SA	1996	1996	Brazil	Holding company	100.00%	Full consolidation
BES Investimento do Brasil, SA	2000	2000	Brazil	Investment Bank	80.00%	Full consolidation
2BCapital, SA	2005	2005	Brazil	Holding company	45.00%	Equity method
BES Securities do Brasil, SA	2000	2000	Brazil	Brokerage house	80.00%	Full consolidation
Gespar Participações, Ltda.	2001	2001	Brazil	Holding company	80.00%	Full consolidation
BES Activos Financeiros, Ltda	2004	2004	Brazil	Asset management	82.50%	Full consolidation
Espírito Santo Serviços Financeiros DTVM, SA	2010	2010	Brazil	Asset management	80.00%	Full consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	80.00%	Full consolidation
BES REFRAN Investimentos	2001	2009	Brazil	Services provider	56.00%	Full consolidation
BES REFRAN Consultoria Financeira	1998	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%	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	57.83%	Full consolidation
Fundo BES Absolute Return	2009	2009	Brazil	Investment fund	48.15%	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
BES África, SGPS, SA (BES ÁFRICA)	**2006**	**2006**	**Portugal**	**Holding company**	**100.00%**	**Full consolidation**
Banco Espírito Santo Cabo Verde, SA	2010	2010	Cape Verde	Commercial banking	99.99%	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 - investment 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
PT Prime Tradecom - Soluções Empresariais de Comércio Elect., SA	2000	2000	Portugal	Management of internet portals	33.33%	Equity method
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%	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%	Equity method
Bio-Genesis	2007	2007	Brazil	Holding company	17.60%	Equity method
YDreams - Informática, SA	2000	2009	Portugal	IT Services	15.33%	Equity method
Fundo de Capital de Risco - ES Ventures III	**2009**	**2009**	**Portugal**	**Venture capital fund**	**57.81%**	**Full consolidation**
Nutrigreen, SA	2007	2009	Portugal	Services provider	11.56%	Equity method
Advance Ciclone Systems, SA	2008	2009	Portugal	Treatment and elimination of residues	18.50%	Equity method
Fundo FCR PME / BES	**1997**	**1997**	**Portugal**	**Venture capital fund**	**55.07%**	**Full consolidation**
Mobile World - Comunicações. SA	2009	2009	Portugal	Telecommunications	26.98%	Equity method
MMCI - Multimédia, SA	2008	2008	Portugal	Holding company	26.98%	Equity method
TLCI 2 - Soluções Integradas de Telecomunicações, SA	2006	2006	Portugal	Telecommunications	26.98%	Equity method
Soprattutto Café, S.A	2006	2006	Portugal	Distribution company	23.38%	Equity method
Enkrott SA	2006	2006	Portugal	Water management and treatment	16.52%	Equity method
Palexpo - Imagem Empresarial, SA	2009	2009	Portugal	Manufacture of furniture	27.26%	Equity method
Nova Figfort - Têxteis, Lda	1995	2009	Portugal	Manufacture of clothes	18.34%	Equity method
Rodi - Sinks & Ideas, SA	2006	2006	Portugal	Industry	24.81%	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
Gespastor, S.A., S.G.I.I.C.	1974	2010	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 (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	Uruguai	Representation office	98.45%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding company**	**40.96%**	**Full consolidation**
ES Concessions International Holding, BV	2010	2010	Netherlands	Holding company	40.96%	Full consolidation
Empark - Aparcamientos y Servicios, SA	1968	2009	Spain	Management of parking lots	9.17%	Equity method
Concesionaria Autopista Perote-Xalapa, CV	2008	2008	Mexico	Motorway concession	8.19%	Equity method
Ascendi Group SGPS, SA	2010	2010	Portugal	Motorway concession	16.38%	Equity method
SCUTVIAS - Autoestradas da Beira Interior, SA	1999	2010	Portugal	Motorway concession	9.11%	Equity method
Portvias - Portagem de Vias, SA	2010	2010	Portugal	Motorway concession	9.11%	Equity method
MRN - Manutenção de Rodovias Nacionais, SA	2010	2010	Portugal	Motorway concession	9.11%	Equity method
Auvisa - Autovia de los Viñedos, SA	2003	2010	Spain	Motorway concession	20.48%	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.

Applying SIC 12, the Group consolidation scope includes the following special purpose entities:

	Established	Acquired	Headquartered	% economic interest	Consolidation method
ATAR Investments, Ltd	2001	2010	Jersey	50.20%	Full Consolidation
ELAN, Ltd	2003	2010	Jersey	100%	Full Consolidation
SB Finance, Ltd	2001	2010	Cayman Islands	100%	Full Consolidation
SIGNUM, Ltd 05/14/12	2001	2010	Cayman Islands	54.80%	Full Consolidation
SIGNUM, Ltd 05/21/12	2001	2010	Cayman Islands	63.96%	Full Consolidation
ARLO II, Ltd	2003	2010	Cayman Islands	100%	Full Consolidation
NAVIO 0 05/10/11 HERZOG	2001	2010	Jersey	100%	Full Consolidation
NAVIO 0 05/10/11 KHAN	2001	2010	Jersey	100%	Full Consolidation
NAVIO 0 05/10/11 ITAMI	2001	2010	Jersey	99.93%	Full Consolidation
Lusitano SME No.1 plc (*)	2006	2010	Ireland	100%	Full Consolidation
Lusitano Mortgages No.6 plc (*)	2007	2010	Ireland	100%	Full Consolidation
Lusitano Project Finance No.1 plc (*)	2007	2010	Ireland	100%	Full Consolidation
Lusitano Mortgages No.7 plc (*)	2008	2010	Ireland	100%	Full Consolidation
Lusitano Leverage finance No. 1 BV (*)	2010	2010	Portugal	100%	Full Consolidation
Lusitano SME No.2 (*)	2010	2010	Netherlands	100%	Full Consolidation

(*) These companies were fully consolidated, as the Group exercises control over their activities.

As at 31 December 2010, the consolidation of these entities had the following impacts on the consolidated financial statements:

(in thousands of euro)

	31.12.2010	3.12.2009
Deposits at Central Banks	468,085	235,561
Financial assets held for trading	406,734	-
Due to costumers (net of impairment)	5,715,334	4,346,416
Debt securities issued	1,208,319	1,527,467
Net Profit for the year	14,346	10,540

The main changes in the Group structure that occurred in 2010 are highlighted as follows:

- Subsidiaries:

- In April 2010, BES acquired 40% of Aman Bank for Commerce and Investment Stock Company (Aman Bank), a privately owned Bank in Libya with its registered office in Tripoli, representing a total investment of euro 40.3 million. This entity is fully consolidated, as BES has management control of Aman Bank (see Note 45);
- In July 2010, Cêntimo – Sociedade Gestora de Participações Sociais, S.A. was liquidated;
- In July 2010, Banco Espírito Santo Cabo Verde, was set-up with a share capital of euro 13 million, being held by BES África in 99.99%;
- In November 2010, BESI acquired 50.1% of Execution Holdings Limited, by an amount of Euro 58,165 thousand. This entity is fully consolidated, as the Group has management control of this entity (See Note 45);
- In November 2010, BESI sold the participation held in Kutaya;
- In December 2010, ESAF - Espírito Santo Activos Financieros (BES subsidiary in Spain) completed (through Espírito Santo Gestíon, SGIIC) the purchase to Banco Pastor (Spain) of the entire share capital of Gespastor, SGIIC, an asset management company, by the amount of Euro 25,354 thousand. This entity became fully consolidated under the full consolidation method (See Note 45).

- Associated companies (see Note 27)

- In March 2010, following the bankruptcy process of Qimonda, the bank acquired 41.06% of Nanium, S.A;
- In March 2010, ES Concessões acquired 50% of Auvisa – Autovia de los Viñedos share capital;
- As from June 2010, AQUASPY Group Pty Limited is no longer included in the scope of consolidation of the Group due to the change in its shareholding structure and BES has no longer control over the activities;
- In June 2010, with the acquisition of an additional 8.41% of UNICRE – Instituição Financeira de Crédito, S.A., BES increased its shareholding to 17.50%. Due to the significant influence that the Group now holds in relation to its management, this entity has been classified as an associate. At the date of the first application of the equity method, a gain of euro 7,347 thousand has been recognised, related to the revaluation of the participation previously held, in accordance with the requirements of IFRS 3 as described in Note 2.2;
- In July 2010, the Group sold the participation held in Neumáticos Andrés Investments, SA, generating a realized gain of euro 3 559 thousand;
- In December 2010, ES Concessões acquired 22.38% of Scutvias – Autoestradas da Beira Interior, SA and Portvias – Portagem de Vias, SA, share capital, by the amount of euro 50,669 thousand and euro 11 thousand, respectively, these entities being included in the Group consolidation scope as from that date;
- In December 2010, ESTV sold its shares in SGPICE to PT Prime Tradecom, receiving in exchange shares representing 33% of PT Prime Tradecom share capital;
- In December 2010, BESI acquired 23.7% of Salgar Investments share capital by an amount of euro 5 268 thousand, increasing the stake to 47.28% of its share capital;
- In December 2010, ES Concessões acquired 40% of Ascendi Group SGPS, SA share capital, through the delivery in kind of shares of Ascendi Beira Litoral e Alta, Ascendi Grande Porto, Ascendi Costa de Prata and Aenor in the amount of euro 42,964 thousand. Also, within the scope of this transaction, the participation held in Ascendi SGPS, SA., was sold.

During the years ended 31 December 2010 and 2009, the movements referring to acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(in thousands of euro)

	31.12.2010						
	Acquisitions			Disposals			
	Acquisition cost	Other investments [a]	Total	Disposal value	Other reimbursements[a]	Total	Gains/ (losses) from sales/ disposals
Subsidiaries							
AMAN Bank	24,275	15,994	40,269	-	-	-	-
BES ÁFRICA	-	14,100	14,100	-	-	-	-
BES Cape Verde	12,995	-	12,995	-	-	-	-
Gespastor	25,354	-	25,354	-	-	-	-
Espírito Santo Activos Financieros	-	15,000	15,000	-	-	-	-
Kutaya	-	-	-	-	-	-	(122)
Execution Holdings	58,165	-	58,165	-	-	-	-
	120,789	**45,094**	**165,883**	**-**	**-**	**-**	**(122)**
Associates							
Ascendi Group, SGPS	163,341	-	163,341	-	-	-	-
SCUTVIAS	50,669	-	50,669	-	-	-	-
Auvisa	41,056	-	41,056	-	-	-	-
Unicre	10,929	568	11,497	-	-	-	-
Nanium	1,481	6,159	7,640	-	-	-	-
Salgar Investments	5,268	-	5,268	-	-	-	-
Banco Delle Tre Venezie	-	3,651	3,651	-	-	-	-
PT Prime Tradecom	-	2,015	2,015	-	-	-	-
TLCI 2	-	1,835	1,835	-	-	-	-
Ydreams	-	1,270	1,270	-	-	-	-
Ascendi Beira Litoral e Alta	-	-	-	(77,030)	(761)	(77,791)	16,695
Ascendi Grande Porto	-	-	-	(54,391)	(369)	(54,760)	18,073
Ascendi Costa de Prata	-	-	-	(22,637)	-	(22,637)	6,196
Empark	-	-	-	(7,136)	-	(7,136)	-
Neumáticos Andrés Investments, SA	-	-	-	(5,660)	-	(5,660)	3,559
Agrilink (Aquaspy)	-	-	-	-	(3,573)	(3,573)	-
Ascendi - Concessões de Transportes	-	-	-	(2,400)	-	(2,400)	2,000
Outros	1,388	2,989	4,377	-	(652)	(652)	-
	274,132	**18,487**	**292,619**	**(169,254)**	**(5,355)**	**(174,609)**	**46,523**
	394,921	**63,581**	**458,502**	**(169,254)**	**(5,355)**	**(174,609)**	**46,401**

(a) Capital increase and loans to companies in which the group has non-controlling interests.

(in thousands of euro)

	31.12.2009						
	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							
Empark	61,413	-	61,413	-	-	-	-
Synergy	8,000	-	8,000	-	-	-	-
Ydreams	7,576	-	7,576	-	-	-	-
Banco Delle Tre Venezie	5,275	-	5,275	-	-	-	-
Agrilink (Aquaspy)	3,390	-	3,390	-	-	-	-
Sousacamp	-	3,000	3,000	-	-	-	-
Nutrigreen	1,521	1,000	2,521	-	-	-	-
Outsystems	2,400	-	2,400	-	-	-	-
Advance Ciclone Systems	1,200	-	1,200	-	-	-	-
Decomed	-	-	-	1,000	-	1,000	250
Lusoscut Grande Porto	-	-	-	-	2,783	2,783	-
Outros	1,472	2,581	4,053	-	1,366	1,366	-
	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 and loans to companies in which the group has minority interests.
(b) Fund Settled in March 2009.
(c) Company Settled in September 2009.
(d) Company settled in November 2009.
(e) Disposal of 24% in December 2009.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING 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 2010 were prepared in accordance with the IFRS effective and adopted by the EU until 31 December 2010. The accounting policies applied by the Group in the preparation of these consolidated financial statements for the year ended 31 December 2010 are consistent with the ones used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2009. However, as described in Note 46, in the preparation of the consolidated financial statements as at 31 December 2010, the Group adopted the accounting standards issued by the IASB and the interpretations issued by the IFRC effective since 1 January 2010. 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 had no material impact in the Group consolidated financial statements.

The accounting standards and interpretations recently issued but not yet effective and that the Group has not adopted in the preparation of its financial statements can be analysed in Note 46.

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 25 February 2011.

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 less than 50%. Subsidiaries are fully consolidated from the date at which control is transferred to the Group until the date that control ceases.

Until 31 December 2009, when accumulated losses of a subsidiary attributable to non-controlling interests exceeded the equity of the subsidiary attributable to the non-controlling interests, the excess was attributed to the Group and was taken to the income statement when incurred. The profits obtained subsequently were recognised by the Group until the losses attributed to the non-controlling interests, previously recognised, were recovered. From 1 January 2010, accumulated losses of a subsidiary are attributed proportionally to the owners of the parent and to the non-controlling interests even if this results in non-controlling interests having a deficit balance.

After 1 January 2010, in a business combination achieved in stages (step acquisition) where control is obtained, the Group remeasures its previously held non-controlling interests in the acquire at its acquisition date fair value and recognises the resulting gain or loss in the income statement when determining the respective goodwill. At the time of a partial sale, from which arises a loss of control of a subsidiary, any remaining non-controlling interests retained is remeasured to fair value at the date the control is lost and the resulting gain or loss is recognised against the income statement.

Associated companies

Associated companies are entities over which the Group has significant influence over its 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. The book value of the investments in associates includes the value of the respective goodwill determined on acquisitions and is presented net of impairment losses.

After 1 January 2010, in a step acquisition that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

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. Gains or losses on sales of shares in associated companies are recognised in the income statement even if that sale does not result in the loss of significant influence.

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 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 established 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.

Goodwill resulting from business combinations that occurred from 1 January 2004 until 31 December 2009 was accounted under the purchase method. The cost of acquisition was measured as 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 represented the difference between the cost of acquisition and the fair value of the Group's share of identifiable net assets, liabilities and contingent liabilities acquired.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred including the fair value of any previously held non-controlling interests in the acquire, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs are expensed as incurred.

At the acquisition date, the non-controlling interests are measured at their proportionate interest in the fair value of the net identifiable assets acquired and of the liabilities assumed, without the correspondent portion of goodwill. As a result, the goodwill recognised in these consolidated financial statements corresponds only to the portion attributable to the equity holders of the Company.

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 non-controlling interests

Until 31 December 2009, the goodwill resulting from the acquisition of non-controlling interests in a subsidiary represented 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 non-controlling interests, were accounted for by the Group in the income statement.

From 1 January 2010, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transaction. Any difference between the consideration paid and the amount of non-controlling interests acquired is accounted for as a movement in equity. Similarly, sales of non-controlling interests and dilutions from which does not result a loss of control, are accounted for as transactions with equity holders in their capacity as equity holders and therefore no gain or loss is recognised in the income statement.

Any difference between the sale proceeds and the recognised amount of non-controlling interests in the consolidated financial statements is accounted for as a movement in equity.

Gains or losses on a dilution or on a sale of a portion of an interest in a subsidiary, from which results a loss of control, 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 balance sheet date are accounted for against reserves net. 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 include (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as being hedging derivatives.
All other derivatives are classified as trading derivatives.

Recognition and measurement

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

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

Hedge accounting

• Classification criteria

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

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

• Fair value hedge

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

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

• Cash flow hedge

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

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

During the periods 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 include 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 betweens 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.

During the years 2010 and 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 a financial liability when it contains a contractual obligation to transfer 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.

Transactions 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 trade

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. Subsequently, these assets or disposal group are measured at the lower of their carrying amount or fair value less costs to sell.

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 for 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 31st 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 is 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.

The valuations of these buildings 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 buildings to the building object of study, obtained through market searching carried out in the zone.

b) Income Method

This method estimates the building value based on the capitalization of his net income, discounted for the present moment, through the discounted cash-flows method.

c) Cost Method

This method separates the building value on its basic components: Urbane Ground Value and Urbanity Value; Construction value; and Indirect Costs Value.

The valuations are performed by independent entities specialized in this type of services. 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 year in which they are incurred.

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

	Number of years
Buildings	35 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 the basis of their expected useful lives, which is usually between 3 to 6 years.

Costs that are directly associated with the development of identifiable specific software applications, 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 in Portugal, 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, BES obtained the necessary authorizations from the Portuguese Insurance Institute to change the Pension Fund contract in order to allow 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 pension liability 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 reviewed annually by qualified independent actuaries. The discount rate used in this calculation was determined with reference to market rates associated with high-quality corporate bonds issues, denominated in the currency in which benefits will be paid and with a maturity similar to the expiry date of the plan obligations.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained (experience adjustments) 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 semester that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the semester, 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 make payments to the fund 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%.

Semi-annually, 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.

From 1 January 2011, the Bank employees will be integrated into the General Social Security Regime, which will ensure the protection of employees in the contingencies of maternity, paternity and adoption and old age, remaining under the responsibility of Banks to protect sickness, disability, death and survival (Decree-Law no. 1-A/2011, 3 January).

The contribution rate will be 26.6%, being 23.6% responsibility of the employer and 3% responsibility of the employees, in lieu of "Caixa de Abono de Família dos Empregados Bancários" (CAFEB) that is abolished by the same law. In consequence of this change, the pension rights of active employees shall be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until the retirement age, with the banks supporting the differential needed to guarantee the pension under the "Acordo Colectivo de Trabalho".

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, BES 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 is determined based on the same methodology described above 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 payments – Share based incentive scheme (SIBA)

BES and its subsidiaries established a share based payment scheme (SIBA), which ended in December 2010. This plan allowed its employees to acquire BES shares with deferred settlement financed by it. The employees had to hold the shares for a minimum of two to four years after which they could sell the shares in the market and repay the debt. However, the employees had, after the referred period, the option to sell the shares back to BES at acquisition cost.

The shares held by the employees under SIBA were 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 was fair valued on grant date and was recognised as an expense, with a corresponding increase in equity, over the vesting period. Annually the amount recognised as an expense was 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 BES' 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 BES 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.

Variable Remuneration Plan in Financial Instruments (PRVIF)

Following the recommendations of the Supervising and Regulatory authorities, on the shareholders General Meeting, held in 6 April 2010 it was approved a new remuneration policy for the Executive Committee members. This policy consists in giving to the Executive Committee members a fixed remuneration, which should represent approximately 45% of the total remuneration, and a variable component representing around 55% of the total remuneration. The variable remuneration shall have two components: one associated with short-term performance and another with medium-term performance. Half of the short-term component must be paid in cash and the remaining 50% should be paid over a three years period, with half of these payments to be made in cash and the remaining through the attribution of shares. The medium-term component has associated a share options program with the exercise of the options set at 3 years from the date of its attribution.

The execution of PRVIF regarding the total remunerations in cash, number of shares and options attributable to each Executive Committee member will be determined by the Remuneration Committee.

Regarding the PRVIF shares attribution modality, shares are attributed to the beneficiaries on a deferred basis over a three years period (1st year: 33%; 2nd year: 33% and 3rd year: 34%) being the attribution subject to the achievement of a Return on Equity (ROE) greater than or equal to 5%.

Regarding the options attribution modality, the attribution of options to the beneficiaries is also performed by the Remuneration Committee, and the exercise price is equal to the single average of the closing prices of BES shares on Euronext during the 20 days preceding the day of attribution of the options, plus 10%. The option can only be exercised at maturity and the beneficiary may choose between the physical settlement or the financial settlement of the options.

PRVIF provides that options under BES shares may be attributed to the bank top management, defined as general managers and advisors to the Board of Directors. The options are granted by the Board of Directors to the beneficiaries in a similar way to the options program for the Executive Committee members.

PRVIF is accounted for in accordance with the applicable standards (IFRS 2 and IAS 19), having been recorded in the year 2010 a cost of euro 3 810 thousand regarding the variable remunerations. As at 31 December 2010, no shares or share options have been attributed.

Bonus to employee and to the Board of Directors

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

2.16. 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 year, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

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

Deferred tax liabilities are recognised for all taxable temporary differences 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).

An operating 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 and deposits with 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 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 quote or valuation models that may require assumptions or judgment in estimating the 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 derivatives

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotes (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, a judgement is made 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. 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 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 differences arising from 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

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 its activities and results.

The Group's products and services includes deposits, loans to retail and corporate customers, asset 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 683 branches in Portugal and with branches in London, New York, Spain (25 branches), Nassau, Cayman Islands, Cape Verde and Madeira Free Zone and 10 representation offices – with BES Investmento (investment banking); BES Angola (36 branches); BES Açores (18 branches); Banco BEST (13 branches); 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) International Commercial Banking; (3) Investment Banking; (4) Asset Management; (5) Capital Markets and Strategic Investments; and (6) Corporate 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 24 corporate centres. Also includes activities with institutional and municipal clients. The main products considered on this segment are: discounted bills, leasing, factoring and short and long term loans, 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, whose 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, debt and equity capital markets, 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.

Corporate 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, having been adopted the following principles:

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 liabilities 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, whose 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 África, Aman Bank, BES Oriente, Espírito Santo Bank; Banco Espírito Santo et de la Vénétie, Banco Delle Tre Venezie, 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.

The primary segments reporting are presented as follows:

(in thousands of euro)

	31.12.2010								
	Retail	**Corporate and Institutional**	**Private banking**	**International commercial banking**	**Investment banking**	**Asset management**	**Capital markets and strategic investments**	**Corporative centre**	**Total**
Net interest income	365,405	217,358	13,033	486,862	83,804	624	(3,128)	-	1,163,958
Other operating income	250,137	228,905	31,628	101,841	167,168	57,077	319,563	-	1,156,319
Total operating income	615,542	446,263	44,661	588,703	250,972	57,701	316,435	-	2,320,277
Operating expenses	478,783	213,267	24,022	277,857	177,250	25,070	258,193	248,646	1,703,088
Includes:									
Provisions/Impairment	47,481	148,685	1,996	87,262	39,069	(338)	209,464	-	533,619
in subsidiaries and associates [1)]	-	-	-	-	3,437	-	42,964	-	46,401
Share of profit of associates	-	-	-	(400)	5,281	-	32,294	-	37,175
Profit before income tax and non-controlling interests	**136,759**	**232,996**	**20,639**	**310,446**	**82,440**	**32,631**	**133,500**	**(248,646)**	**700,765**
Intersegment operating income	2,574	34,689	104	(36,857)	(2,464)	(22,997)	92,504	-	67,553
Total Net Assets	**17,970,199**	**20,561,371**	**1,505,145**	**19,538,705**	**7,048,731**	**171,102**	**16,860,174**	**-**	**83,655,427**
Total Liabilities	**17,897,943**	**20,561,371**	**1,505,140**	**18,461,350**	**6,384,009**	**41,349**	**11,328,017**	**-**	**76,179,179**
Investments in associates	-	-	-	-	52,519	-	909,389	-	961,908

1) See Note 1

(in thousands of euro)

	31.12.2009								
	Retail	**Corporate and Institutional**	**Private banking**	**International commercial 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	251,093	189,901	23,970	176,451	168,078	53,325	171,499	-	1,034,317
Total operating income	600,013	516,810	36,664	471,229	212,424	54,539	343,453	-	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
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 non-controlling interests	**158,586**	**240,410**	**12,987**	**173,425**	**57,178**	**29,954**	**235,851**	**(223,480)**	**684,911**
Intersegment operating income	8,465	35,824	1,194	(4,874)	(6,357)	(23,307)	56,394	-	67,339
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

The secondary segment information is prepared in accordance with the geographical distribution of the Group's business units, as follows:

(in thousands of euro)

	31.12.2010										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Others	Total
Net profit for the year	306,739	12,776	7,162	47,207	14,729	32,133	90,954	2,140	1,815	(5,135)	510,520
Net assets	61,472,957	5,498,374	72,470	5,601,399	1,562,993	2,672,191	5,923,889	111,437	252,857	486,860	83,655,427
Capital expenditure (Property and equipment)	40,656	1,325	-	3,118	14	-	148,435	1,281	36	-	194,865
Capital expenditure (Intangible assets)	105,002	22,632	-	6,733	-	-	695	85	-	116	135,263

(in thousands of euro)

	31.12.2009										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Others	Total
Net profit for the year	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

NOTE 5 - Net Interest Income

This balance is analysed as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	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	1,994,564	43,230	2,037,794	2,140,313	54,942	2,195,255
Interest from financial assets at fair value through profit or loss	-	266,590	266,590	-	323,047	323,047
Interest from deposits with banks	51,162	16,163	67,325	79,821	17,837	97,658
Interest from available-for-sale financial assets	307,723	-	307,723	180,182	-	180,182
Interest from held-to-maturity financial assets	115,480	-	115,480	92,402	-	92,402
Interest from derivatives for risk management purposes	-	918,685	918,685	-	931,950	931,950
Other interest and similar income	14,301	-	14,301	17,039	-	17,039
	2,483,230	**1,244,668**	**3,727,898**	**2,509,757**	**1,327,776**	**3,837,533**
Interest expense and similar charges						
Interest from debt securities	735,074	204,020	939,094	539,214	319,845	859,059
Interest from amounts due to customers	446,727	61,098	507,825	439,839	23,816	463,655
Interest from deposits from central banks and other banks	185,319	8,403	193,722	227,760	48,297	276,057
Interest from subordinated debt	117,791	-	117,791	130,816	6,484	137,300
Interest from derivatives for risk management purposes	-	805,508	805,508	-	900,647	900,647
	1,484,911	**1,079,029**	**2,563,940**	**1,337,629**	**1,299,089**	**2,636,718**
	998,319	**165,639**	**1,163,958**	**1,172,128**	**28,687**	**1,200,815**

Interest from loans and advances includes an amount of euro 24,363 thousand (31 December 2009: euro 18,626 thousand) 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)

	31.12.2010	31.12.2009
Fee and commission income		
From banking services	522,361	497,206
From guarantees granted	184,624	125,274
From transactions with securities	44,495	35,521
From commitments assumed to third parties	42,987	31,699
Other fee and commission income	92,341	96,753
	886,808	**786,453**
Fee and commission expenses		
From banking services rendered by third parties	72,539	70,876
From transactions with securities	25,135	20,773
From guarantees received	1,699	1,423
Other fee and commission expenses	18,102	13,239
	117,475	**106,311**
	769,333	**680,142**

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)

	31.12.2010			31.12.2009		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	123,509	163,317	(39,808)	83,458	74,965	8,493
Issued by other entities	25,187	19,203	5,984	27,484	70,589	(43,105)
Shares	76,260	76,096	164	162,759	88,149	74,610
Other variable income securities	4,570	9,134	(4,564)	11,759	2,021	9,738
	229,526	**267,750**	**(38,224)**	**285,460**	**235,724**	**49,736**
Derivative financial instruments						
Exchange rate contracts	2,231,425	2,442,295	(210,870)	3,133,213	3,494,862	(361,649)
Interest rate contracts	6,834,416	6,809,008	25,408	6,868,426	6,625,332	243,094
Equity/Index contracts	1,450,159	1,478,864	(28,705)	1,956,853	1,888,526	68,327
Credit default contracts	545,887	539,458	6,429	378,833	391,465	(12,632)
Other	398,226	395,537	2,689	543,405	454,038	89,367
	11,460,113	**11,665,162**	**(205,049)**	**12,880,730**	**12,854,223**	**26,507**
Financial assets and liabilities at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	217	8	209	-	-	-
Issued by other entities	145,117	118,356	26,761	263,228	163,040	100,188
Shares	1,335	188	1,147	4,482	6	4,476
Other securities of variable income	152,206	193,614	(41,408)	85,129	192,513	(107,384)
	298,875	**312,166**	**(13,291)**	**352,839**	**355,559**	**(2,720)**
Other financial assets (1)						
Deposits with Banks	479	715	(236)	1,155	965	190
Loans and Advances to costumers	141,964	146,271	(4,307)	22,488	21,064	1,424
	142,443	**146,986**	**(4,543)**	**23,643**	**22,029**	**1,614**
Financial liabilities (1)						
Deposits from Banks	30,104	36,488	(6,384)	60,704	89,213	(28,509)
Due to costumers	84,778	112,693	(27,915)	21,831	38,785	(16,954)
Debt Securities issued	285,941	179,099	106,842	245,617	312,149	(66,532)
Subordinated Debt	11,877	14,783	(2,906)	15,159	29,713	(14,554)
	412,700	**343,063**	**69,637**	**343,311**	**469,860**	**(126,549)**
	854,018	**802,215**	**51,803**	**719,793**	**847,448**	**(127,655)**
	12,543,657	**12,735,127**	**(191,470)**	**13,885,983**	**13,937,395**	**(51,412)**

(1) Includes the fair value change of hedged assets and liabilities or at fair value option.

As at 31 December 2010, this balance includes a positive effect of euro 82.7 million 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 2009: negative effect of euro 41 million).

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 2010, the gains recognised in the income statement arising from the built-in fee (day one profit) amounted to approximately euro 10 446 thousand (2009: euro 9 006 thousand).

NOTE 8 – Net Gains From Available-For-Sale Financial Assets

This balance is analysed as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	18,478	19,913	(1,435)	3,443	2,551	892
Issued by other entities	13,888	19,543	(5,655)	29,407	14,267	15,140
Shares	458,664	90,390	368,274	300,298	137,500	162,798
Other variable income securities	11,008	7,756	3,252	11,252	843	10,409
	502,038	137,602	364,436	344,400	155,161	189,239

During the year ended 31 December 2010, the Group sold at market prices through the overall stock exchange, (i) 43.2 million ordinary shares of EDP; (ii) 11.7 million ordinary shares of PT and (iii) 52.5 million ordinary shares of Bradesco. The realised net gain following these transactions was euro 287.6 million.

The balance Dividend Income from the income statement, in the amount of euro 193 292 thousand, includes dividends received from PT, Bradesco and EDP in the amount of euro 129.1 million, euro 32.4 million and euro 17.2 million, respectively (31 December 2009: euro 34.3 million from PT; euro 27.7 million from Bradesco and euro 15.6 million from EDP.)

During the year ended 31 December 2009, the Group sold at market prices through the stock exchange, (i) 111.6 million ordinary shares of EDP; (ii) 69.4 million ordinary shares of PT and (iii) 23.0 million ordinary shares of Bradesco. The realised net gain following these transactions was euro 52.1 million.

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)

	31.12.2010			31.12.2009		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	1,485,616	1,438,885	46,731	1,139,932	1,081,399	58,533
	1,485,616	1,438,885	46,731	1,139,932	1,081,399	58,533

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)

	31.12.2010	31.12.2009
Other operating income / (expenses)		
Technological services	6,700	6,104
Gains on repurchase of Group debt securities (see Note 35)	32,291	109,554
Non recurring gains on credit operations	19,582	18,590
Non recurring gains on advisory services	5,619	6,893
Direct and indirect taxes	(14,307)	(11,527)
Contributions to the Deposits Guarantee Fund	(5,644)	(4,751)
Membership and donations	(7,475)	(6,933)
Losses on customer funds contracts	(38,368)	(24,978)
Other	(12,032)	2,879
	(13,634)	95,831

NOTE 11 – Staff Costs

This balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Wages and salaries	451,846	403,189
Remuneration	447,900	400,175
Long-term service benefits (see Note 12)	3,946	3,014
Mandatory social charges	70,304	58,772
Pension costs (see Note 12)	88,251	85,317
Other costs	17,919	18,617
	628,320	**565,895**

Other costs includes the amount of euro 515 thousand (31 December 2009: euro 362 thousand) related with the share based incentive scheme (SIBA) and euro 4,301 thousand related with the variable remuneration payment plan (PPRV) (31 December 2009: euro 4,301 thousand), 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
31 December 2010				
Salaries and other short-term benefits	5,593	739	13,221	19,553
Bonus	4,409	-	5,740	10,149
Sub total	**10,002**	**739**	**18,961**	**29,702**
Pension costs	4,386	17	1,552	5,955
Long service benefits and other	616	-	107	723
Total	**15,004**	**756**	**20,620**	**36,380**
31 December 2009				
Salaries and other short-term benefits	4,236	717	8,911	13,864
Bonus	7,054	-	4,213	11,267
Sub total	**11,290**	**717**	**13,124**	**25,131**
Pension costs	4,257	15	1,346	5,618
Long service benefits and other	739	-	9	748
Total	**16,286**	**732**	**14,479**	**31,497**

Other key management personnel includes board members of BES subsidiaries, the top management and the Advisors to the Board of Directors of the Bank.

As at 31 December 2010 and 2009, loans granted by BES Group to its key management personnel, amounted to euro 27,386 thousand and euro 30,313 thousand, respectively.

As at 31 December 2010 and 2009, the number of employees of the Group is analysed as follows:

	31.12.2010	31.12.2009
BES employees	6,750	6,637
Financial sector subsidiaries employees	3,108	2,265
Financial sector group entities employees	**9,858**	**8,902**

The number of BES Group employees, per professional category, is analysed as follows:

	31.12.2010	31.12.2009
Senior management	1,190	1,040
Management	1,034	980
Specific functions	3,988	3,618
Administrative functions and other	3,544	3,161
	9,858	**8,902**

NOTE 12 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the collective labour 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 established 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.

In the scope of the agreement between the Government, the Banking sector and the Unions, starting 1 January 2011, the Bank employees will be integrated into the General Social Security Regime (RGSS), which will ensure the protection of employees in the contingencies of maternity, paternity and adoption and old age, remaining under the responsibility of Banks to protect sickness, disability, death and survival (Decree-Law no. 1-A/2011, 3 January).

The agreement states that no bank employee integrated within the Social Security Scheme will see the value of the respective pension decreased compared to the current provisions of the collective agreements. The retirement pensions of the bank employees to be integrated within the Social Security Scheme continue to be calculated as provided in the ACT and other conventions, but the bank employees are entitled to receive a pension under the general scheme, which amount takes into consideration the years of contributions to this scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and the pension that the employee is entitled to receive from the Social Security Scheme. On this basis, the bank's risk exposure to actuarial and financial benefits associated with pension's liabilities still maintains.

Nevertheless, the integration leads to a decrease in the actual present value of total benefits reported to the normal retirement age (VABT) to be borne by the pension fund. Since there was no reduction in benefits on a beneficiary's perspective, the liabilities for past services remained unchanged.

Taking into account that the basis for calculating the benefits in the ACT and RGSS plans are based on different formulas, there is the possibility of obtaining a gain, when the amount of liabilities to be covered by the pension funds at the retirement age is lower than the responsibilities value as at 31 December 2010, which should be deferred on a linear basis over the average working life until the normal retirement age is reached.

Thus, the Group has not recorded in its financial statements any impact in terms of the actuarial calculations as at 31 December 2010, arising from the integration of its workers in the Social Security Scheme.

The key actuarial assumptions used to calculate pension liabilities, are as follows:

	Assumptions		Actual	
	31.12.2010	**31.12.2009**	**31.12.2010**	**31.12.2009**
Financial assumptions				
Salaries increase rate	3.25%	3.25%	3.00%	3.70%
Pensions increase rate	1.75%	1.75%	0.20%	1.60%
Expected return of plan assets	5.50%	6.00%	2.17%	10.82%
Discount rate	5.50%	5.50%	-	-
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 as follows:

	31.12.2010	31.12.2009
Employees	6,292	6,248
Pensioners	5,684	5,655
TOTAL	**11,976**	**11,903**

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 2010 and 2009 are analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Assets / (liabilities) recognised in the balance sheet		
Defined benefit obligation		
Pensioners	(1,292,087)	(1,278,006)
Employees	(799,508)	(738,793)
	(2,091,595)	(2,016,799)
Health-care benefit obligation		
Pensioners	(70,371)	(68,869)
Employees	(43,400)	(39,534)
	(113,771)	(108,403)
Total obligations	**(2,205,366)**	**(2,125,202)**
Coverage		
Fair value of plan assets	2,206,313	2,198,280
Amounts payable to the fund	947	73,078
Unrecognised net actuarial losses	884,528	839,063
Asset/(liabilities) recognised in the balance sheet	**885,475**	**912,141**

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)

	31.12.2010			31.12.2009		
	Pension plans	Health-care benefits	Total	Pension plans	Health-care benefits	Total
Defined benefit obligation at the beginning of the year	2,016,799	108,403	2,125,202	1,958,118	106,756	2,064,874
Service cost	36,483	2,180	38,663	38,569	2,197	40,766
Interest cost	109,425	5,904	115,329	108,907	5,947	114,854
Plan participants' contribution	3,243	1	3,244	3,198	1	3,199
Actuarial (gains) / losses:						
- changes in actuarial assumptions	-	-	-	(40,867)	(2,285)	(43,152)
- experience adjustments	21,955	3,246	25,201	50,034	1,549	51,583
Pensions paid by the fund	(105,293)	(5,945)	(111,238)	(104,069)	(5,831)	(109,900)
Benefits paid by the Group	-	-	-	-	(34)	(34)
Exchange differences and other	8,983	(18)	8,965	2,909	103	3,012
Defined benefit obligation at the end of the year	**2,091,595**	**113,771**	**2,205,366**	**2,016,799**	**108,403**	**2,125,202**

As at 31 December 2010, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 17.5 million (31 December 2009: euro 16.4 million) and an increase in costs (service cost and interest cost) of euro 1.3 million (31 December 2009: euro 1.2 million).

The change in fair value of the plan assets for the years ended 31 December 2010 and 2009 is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Fair value of plan assets at the beginning of the year	2,198,280	2,056,627
Actual return on plan assets	45,296	210,935
Group contributions	58,027	34,209
Plan participants' contributions	3,244	3,199
Pensions paid by the fund	(111,238)	(109,900)
Exchange differences and other	12,704	3,210
Fair value of plan assets at the end of the year	**2,206,313**	**2,198,280**

The fair value of plan assets can be analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Shares	759 778	705 821
Bonds	441 178	748 773
Real estate assets	477 677	447 249
Other	527 680	296 437
Total	**2 206 313**	**2 198 280**

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)

	31.12.2010	31.12.2009
Shares	37,895	46,859
Bonds	1,132	3,776
Real estate assets	169,125	170,331
Total	**208,152**	**220,966**

As at 31 December 2010, the shares held by the pension fund correspond to 13.2 million shares of BES (31 December 2009: 10.3 million shares of BES).

During 2010 and 2009 there were no transactions held with the pension fund.

The changes in the unrecognised net actuarial losses are analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Unrecognised net actuarial losses at the beginning of the year	**839,063**	**971,172**
Actuarial (gains) / losses		
- changes in actuarial assumptions	-	(43,152)
- experience adjustments	92,096	(39,411)
Amortisation of the year	(46,450)	(49,638)
Other	(181)	92
Unrecognised net actuarial losses at the end of the year	**884,528**	**839,063**
Of which:		
Within the corridor	218,528	219,459
Outside the corridor	666,000	619,604

The changes in the (un)/overfunded liabilities are analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
(Un)/overfunded liabilities at the beginning of the year	**73,078)**	**(8,247)**
Actuarial (gains) / losses on defined benefit obligation	(25,201)	(8,431)
Actuarial (gains) / losses of plan assets	(66,895)	90,994
Charges for the year:		
- Service cost	(38,663)	(40,766)
- Interest cost	(115,329)	(114,854)
- Expected return on plan assets	112,191	119,941
- Other	3,739	198
Contributions of the year and pensions paid by the Group	58,027	34,243
(Un)/over funded liabilities at the end of the year	**947**	**73,078**

The net periodic benefit cost can be analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Service cost	38,663	40,766
Interest cost	115,329	114,854
Expected return on plan assets	(112,191)	(119,941)
Amortisation of the year	46,450	49,638
Net benefit cost	**88,251**	**85,317**

The changes in the assets/ (liabilities) recognised in the balance sheet is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
At the beginning of the year	**912,141**	**962,925**
Net periodic benefit cost	(88,251)	(85,317)
Contributions of the year and pensions paid by the Group	58,027	34,243
Other	3,558	290
At the end of the year	**885,475**	**912,141**

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)

	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Defined benefit obligation					
Pension plans	(2,091,595)	(2,016,799)	(1,958,118)	(1,970,365)	(1,891,647)
Health-care benefits	(113,771)	(108,403)	(106,756)	(110,675)	(109,797)
	(2,205,366)	(2,125,202)	(2,064,874)	(2,081,040)	(2,001,444)
Fair value of plan assets	2,206,313	2,198,280	2,056,627)	2,233,823	2,028,780
(Un)/over funded liabilities	**947**	**73,078**	**(8,247)**	**152,783**	**27,336**
(Gains)/losses from experience adjustments arising on defined benefit obligation					
Pension plans	21,955	50,034	23,491	42,590	3,460
Health-care benefits	3,246	1,549	19	(1,881)	(11,577)
(Gains)/losses from experience adjustments arising on plan assets	66,895	(90,994)	727,214	(157,635)	(140,990)

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.

In 29 December 2010, the last block of the 2004 plan matured, thus ceasing the application of SIBA.

The changes in the number of underlying shares to the outstanding plans, during the years ended 31 December 2010 and 31 December 2009, were as follows:

	31.12.2010		31.12.2009	
	Number of shares	Amount (thousands of euro)	Number of shares	Amount (thousands of euro)
Balance at the beginning of the year	1,276,261	25,083	2,479,081	29,838
Shares sold [1]	(1,276,261)	(2,952)	(1,202,820)	(4,755)
Net value arising from transactions on SIBA shares[2]	-	(22,131)	-	-
Balance at the end of the year	**-**	**-**	**1,276,261**	**25,083**

(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.
(2) Amount transfered to Other reserves in 2010.

The total costs recognised related to the plan for the years ended 31 December 2010 and 2009, were as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Total costs of the plans (see Note 11)	515	362

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:

(in thousands of euro)

	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 thousand, 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 2010, as staff costs, the amount of euro 4,301 thousand (31 December 2009: euro 4,301 thousand). 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, being nil as at 31 December 2010 (31 December 2009: euro 394 thousand).

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 2010 and 2009, the Group's liabilities regarding this benefits amount to euro 29,655 thousand and euro 28,602 thousand, respectively (see Note 36). The costs incurred in the year ended 31 December 2010 with long-term service benefits amounted to euro 3,946 thousand (31 December 2009: euro 3,014 thousand).

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)

	31.12.2010	31.12.2009
Rental costs	69,256	65,118
Advertising costs	43,202	42,449
Communication costs	38,327	36,039
Maintenance and related services	18,082	16,585
Travelling and representation costs	37,442	27,829
Transportation	9,080	10,085
Insurance costs	7,429	6,630
IT services	64,325	55,450
Independent work	8,327	6,994
Temporary work	8,168	7,354
Electronic payment systems	12,900	12,707
Advisory services	14,765	14,373
Legal costs	20,823	17,894
Consultants and external auditors	8,710	8,888
Water, energy and fuel	10,646	9,968
Consumables	5,738	5,808
Other costs	63,837	58,383
	441,057	**402,554**

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)

	31.12.2010	31.12.2009
Up to 1 year	1,882	1,640
1 to 5 years	2,089	3,148
	3,971	**4,788**

The fees invoiced during the years 2010 and 2009 by the statutory auditors, according to art. 508.-F of the Companie Code (*Código das Sociedades Comerciais*), are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Audit services fees	2,304	2,047
Other assurance services arising from the external audit function	1,567	1,090
Tas consultancy services	645	514
Other services	1,067	4,163
Total amount of Services invoiced	**5,583**	**7,814**

NOTE 14 – Earnings per Share

Basic earnings per share

Basic earnings per share are calculated 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)

	31.12.2010	31.12.2009
Profit attributable to the equity holders of the Bank (1)	**477,040**	**488,634**
Weighted average number of ordinary shares (thousands)	1,166,667	1,000,000
Weighted average number of treasury stock (thousands)	(1,243)	(1,826)
Weighted average number of ordinary shares outstanding (thousands)	**1,165,424**	**998,174**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**0.41**	**0.49**

(1) Net profit for the year adjusted by the dividend from preference shares.

Diluted earnings per share

The diluted earnings per share are 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 earnings per share as the Group has no instruments with dilutive effect issued as at 31 December 2010 and 2009.

NOTE 15 – Cash and Deposits at Central Banks

As at 31 December 2010 and 2009, this balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Cash	306,203	218,595
Deposits at central banks		
Bank of Portugal	120,045	931,906
Other central banks	504,257	1,041,816
	624,302	1,973,722
	930,505	2,192,317

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 116,208 thousand (31 December 2009: euro 613,710 thousand). 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 2010, the interest earnings average rate of these deposits was 1.00% (31 December 2008: 1.27%).

The fulfilment of the minimum mandatory requirements for a given period of observation is implemented taking into account the value of the Bank's deposits with the Bank of Portugal during the referred period. The balance of the Bank's account with the Bank of Portugal as at 31 December 2010 was included in the maintenance period of 8 December 2010 to 18 January 2011, which corresponded to an average mandatory reserve of euro 577 million.

NOTE 16 – Deposits with Banks

As at 31 December 2010 and 2009, this balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Deposits with banks in Portugal		
Uncollected cheques	181,680	213,172
Repayable on demand	64,388	60,561
	246,068	273,733
Deposits with banks abroad		
Repayable on demand	148,121	159,660
Uncollected cheques	1,260	825
Other	162,523	176,356
	311,904	336,841
	557,972	610,574

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 2010 and 2009, this balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1,524,069	2,379,701
Issued by other entities	307,352	83,083
Shares	181,238	70,559
Other variable income securities	538	-
	2,013,197	2,533,343
Derivatives		
Derivative financial instruments with positive fair value	1,928,864	1,926,141
	3,942,061	4,459,484
Financial liabilities held for trading		
Derivative financial instruments with negative fair value	1,957,969	1,561,143
Short selling	130,038	-
	2,088,007	1,561,143

Short selling represents securities sold by the Group, which had been acquired under a purchase transaction with a resale agreement. In accordance with the accounting policy described in Note 2.7, securities purchased under agreements to resell are not recognized in the balance sheet. If those securities are sold, the Group recognizes a financial liability equivalent to the fair value of assets that must be returned under the resale agreement.

As at 31 December 2010 and 2009 the analysis of the securities held for trading by the period to maturity, is presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Up to 3 months	741,087	724,877
3 to 12 months	71,040	915,404
1 to 5 years	445,523	298,938
More than 5 years	569,799	523,565
Undetermined	185,748	70,559
	2,013,197	2,533,343

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 2010 and 2009, financial assets held-for-trading analysed by quoted and unquoted securities, are presented as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	1,524,069	-	1,524,069	2,371,692	8,009	2,379,701
Issued by other entities	35,195	272,157	307,352	5,213	77,870	83,083
Shares	181,238	-	181,238	68,217	2,342	70,559
Other variable income securities	538	-	538	-	-	-
	1,741,040	272,157	2,013,197	2,445,122	88,221	2,533,343

As at 31 December 2010 and 2009, derivative financial instruments can be analysed as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Notional	Fair value		Notional	Justo valor	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	1,509,550	39,212	70,486	1,055,945	14,802	7,244
- sell	1,495,411			946,493		
Currency Swaps						
- buy	3,626,838	9,689	10,188		3,230	2,325
- sell	3,632,969			1,331,185		
Currency Futures	319,608	-	-	52,604	-	-
Currency Interest Rate Swaps				-		
- buy	3,664,746	318,313	154,614		196,850	186,836
- sell	3,646,180			1,336,190		
Currency Options	5,921,549	130,067	154,837	5,131,966	131,597	120,811
	23,816,851	497,281	390,125	12,546,792	346,479	317,216
Interest rate contracts						
Forward Rate Agreements	1,124,000	408	197	215,189	16	58
Interest Rate Swaps	41,600,058	1,166,981	1,189,653	39,146,226	1,333,495	985,972
Swaption - Interest Rate Options	2,747,426	4,893	3,502	7,623,745	12,835	11,678
Interest Rate Caps & Floors	8,523,046	63,400	52,830	9,389,755	75,835	45,483
Interest Rate Futures	17,207,167	-	-	5,000	-	-
Interest Rate Options	32,310,536	194	28,261	4,426,549	816	358
Future Options	29,458,165	-	-	63,730	-	-
	132,970,398	1,235,876	1,274,443	60,870,194	1,422,997	1,043,549
Equity / index contracts						
Equity / Index Swaps	678,278	20,069	31,099	963,363	34,219	41,627
Equity / Index Options	3,405,551	115,744	212,068	2,273,747	84,791	124,241
Equity / Index Futures	361,985	-	-	362,071	-	-
Future Options	5,242,778	-	-	153,984	-	-
	9,688,592	135,813	243,167	3,753,165	119,010	165,868
Credit default contracts						
Credit Default Swaps	3,544,556	59,894	50,234	2,971,504	37,655	34,510
Total	170,020,397	1,928,864	1,957,969	80,141,655	1,926,141	1,561,143

As at 31 December 2010 the fair value of derivative financial instruments included the net amount of euro 73.1 million (31 December 2009: net amount of euro 28.1 million) related to the negative fair value of the embedded derivates, as described in Note 2.4.

As at 31 December 2010 and 2009, the analysis of trading derivatives by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2010		31.12.2009	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	50,324,918	(2,092)	9,803,294	14,640
3 to 12 months	61,940,718	18,265	12,641,266	202,404
1 to 5 years	27,675,040	(227,585)	23,203,837	12,255
More than 5 years	30,079,721	182,307	34,493,258	135,699
	170,020,397	(29,105)	80,141,655	364,998

NOTE 18 – Other Financial Assets at Fair Value Through Profit or Loss

This balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Bonds and other fixed income securities		
Issued by other entities	259,002	780,466
Shares	15,145	12,821
Other securities	1,150,184	209,014
	1,424,331	1,002,301

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 2010 and 2009, 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)

	31.12.2010	31.12.2009
Up to 3 months	72,067	30,537
3 to 12 months	2,836	36,311
1 to 5 years	609,681	596,125
More than 5 years	724,598	244,104
Undetermined	15,149	95,224
	1,424,331	1,002,301

Regarding quoted or unquoted securities, the balance financial assets at fair value through profit or loss is presented as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by other entities	51,516	207,486	259,002	150,422	630,044	780,466
Shares	15,145	-	15,145	12,821	-	12,821
Other variable income securities	-	1,150,184	1,150,184	-	209,014	209,014
	66,661	1,357,670	1,424,331	163,243	839,058	1,002,301

NOTE 19 – Available-For-Sale Financial Assets

As at 31 December 2010 and 2009, 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	3,745,390	368	(26,974)	(1)	3,718,783
Issued by other entities	5,112,239	16,032	(69,703)	(30,496)	5,028,072
Shares	2,270,027	219,852	(81,690)	(92,694)	2,315,495
Other variable income securities	731,936	22,428	(5,792)	(36,041)	712,531
Balance as at 31 December 2010	**11,859,592**	**258,680**	**(184,159)**	**(159,232)**	**11,774,881**
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**

(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 described in Note 3.1.

The securities pledged as collateral by the Group are analysed in Note 39.

In December 2010, the Group performed a commercial paper securitisation operation (available-for-sale assets) in the amount of euro 603 million in the scope of Lusitano SME 2 (See Note 1 and 41).

The changes occurred in impairment losses of available-for-sale financial assets are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	137,890	106,160
Charge for the year	36,113	30,970
Charge off	(14,515)	(29,738)
Write back for the year	(6,311)	(2,101)
Exchange differences and other [a]	6,055	32,599
Balance at the end of the year	**159,232**	**137,890**

a) As at 31 December 2009, includes euro 21 214 thousand related with debt securitisation operations.

As at 31 December 2010 and 2009, the analysis of available-for-sale assets by maturity is presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Up to 3 months	2,586,843	1,430,724
3 to 12 months	3,178,557	1,124,549
1 to 5 years	1,291,073	1,198,059
More than 5 years	1,691,139	1,540,455
Undetermined	3,027,269	3,237,813
	11,774,881	**8,531,600**

The main equity exposures that contribute to the fair value reserve, as at 31 December 2010 and 2009, can be analysed as follows:

(in thousands of euro)

Description	31.12.2010				
	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Banco Bradesco	759,002	170,217	-	-	929,219
Portugal Telecom	754,062	-	(7,280)	-	746,782
EDP	284,953	-	(49,897)	-	235,056
Banque Marocaine du Commerce Extérieur	2,290	7,293	-	(344)	9,239
	1,800,307	**177,510**	**(57,177)**	**(344)**	**1,920,296**

(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**

As at 31 December 2010 and 2009, the unrealised losses related with the main equity exposures under the available-for-sale financial assets category were recognised in fair value reserves, as they did not meet with the judgment criteria 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 strategic participations. AVISTAR has acquired in the stock exchange, at market prices, shares of EDP, PT and Banco Bradesco, holding, as at 31 December 2010, respectively, 94.4 million shares, 89.1 million shares and 80.2 million shares of these entities.

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

(in thousands of euro)

	31.12.2010			31.12.2009		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	1,728,459	1,990,324	3,718,783	159,441	1,946,017	2,105,458
Issued by other entities	1,729,920	3,298,152	5,028,072	454,805	2,731,492	3,186,297
Shares	2,047,683	267,812	2,315,495	2,316,592	268,255	2,584,847
Other variable income securities	88,326	624,205	712,531	176,615	478,383	654,998
	5,594,388	6,180,493	11,774,881	3,107,453	5,424,147	8,531,600

NOTE 20 – Loans and Advances to Banks

As at 31 December 2010 and 2009, this balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Loans and advances to banks in Portugal		
Inter-bank money market	16	20,826
Deposits	1,295,533	4,081,424
Loans	42,241	114,621
Very short term deposits	27,105	26,504
Other loans and advances	64,483	68,077
	1,429,378	4,311,452
Loans and advances to banks abroad		
Deposits	1,370,001	1,307,458
Very short term deposits	55,269	736,848
Loans	1,000,033	1,602,218
Other loans and advances	390,999	40,247
	2,816,302	3,686,771
Impairment losses	(244)	(416)
	4,245,436	7,997,807

The main loans and advances to banks in Portugal, as at 31 December 2010, bear interest at an average annual interest rate of 1.53% (31 December 2009: 1.44%). Loans and advances to banks abroad bear interest at the international market rates where the Group operates.

As at 31 December 2010, the balance loans and advances to banks in Portugal includes deposits in the European Central Banks System (Bank of Portugal) in the amount of euro 1,200 million (31 December 2009: euro 3,750 million).

As at 31 December 2009, this balance includes euro 776,786 thousand of loans and advances to banks at fair value through profit or loss (see Note 23).

As at 31 December 2010 and 2009, the analysis of loans and advances to banks by maturity is presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Up to 3 months	3,590,122	7,089,360
3 to 12 months	377,361	671,297
1 to 5 years	232,281	210,929
More than 5 years	45,633	25,965
Undetermined	283	672
	4,245,680	7,998,223

The changes occurred during the year in impairment losses of loans and advances to banks are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the begining of the year	**416**	**1,022**
Charge for the year	164	410
Write back for the year	(378)	(1,511)
Exchange differences and other	42	495
Balance at the end of the year	**244**	**416**

NOTE 21 – Loans and Advances to Customers

As at 31 December 2010 and 2009, this balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Domestic loans		
Corporate		
Loans	14,107,206	13,009,107
Commercial lines of credits	4,800,692	5,036,175
Finance leases	3,200,046	3,235,795
Discounted bills	554,527	684,152
Factoring	1,566,142	1,551,064
Overdrafts	25,048	51,705
Other loans	226,522	173,276
Retail		
Mortgage loans	10,716,984	10,389,196
Consumer and other loans	2,254,461	2,362,002
	37,451,628	**36,492,472**
Foreign loans		
Corporate		
Loans	8,553,156	7,603,437
Commercial lines of credits	2,147,981	2,041,724
Finance leases	182,281	250,012
Discounted bills	174,543	197,423
Factoring	50,802	50,929
Overdrafts	372,415	211,558
Other loans	1,229,237	1,556,885
Retail		
Mortgage loans	884,958	878,066
Consumer and other loans	452,445	355,185
	14,047,818	**13,145,219**
Overdue loans and interest		
Up to 3 months	79,520	82,852
From 3 months to 1 year	258,045	290,551
From 1 to 3 years	536,733	353,038
More than 3 years	232,367	167,022
	1,106,665	**893,463**
	52,606,111	**50,531,154**
Impairment Losses	(1,776,988)	(1,552,307)
	50,829,123	**48,978,847**

As at 31 December 2010, the balance loans and advances to customers (net of impairment losses) includes an amount of euro 5,715.3 million (31 December 2009: euro 4,346.4 million) related to securitised loans following the consolidation of securitisation vehicles (see Note 1), according to the accounting policy described in Note 2.2. The liabilities related to these securitisations are booked under debt securities issued (see Notes 1 and 32).

As at 31 December 2010, loans and advances include euro 4,963,051 thousand of mortgage loans that collateralise the issue of covered bonds (31 December 2009: euro 4,053,833 thousand) (see Note 32).

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)

	31.12.2010	31.12.2009
Up to 3 months	3,911,717	6,408,614
3 to 12 months	7,211,983	5,586,634
1 to 5 years	11,507,829	12,561,896
More than 5 years	28,867,917	25,080,547
Undetermined	1,106,665	893,463
	52,606,111	**50,531,154**

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

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	1,552,307	1,148,065
Charge for the year	559,421	598,965
Charge off	(107,939)	(85,362)
Write back for the year	(207,612)	(59,024)
Unwind of discount	(24,363)	(18,626)
Exchange differences and other	5,174	(31,711)
Balance at the end of the year	**1,776,988**	**1,552,307**

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 2010 and 2009, the detail of impairment is as follows:

(in thousands of euro)

	31.12.2010						
	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	8,313,225	1,063,999	29,769,724	322,320	38,082,949	1,386,319	36,696,630
Mortgage loans	1,206,383	193,056	10,494,630	26,285	11,701,013	219,341	11,481,672
Consumers loans - other	456,680	134,482	2,365,469	36,846	2,822,149	171,328	2,650,821
Total	**9,976,288**	**1,391,537**	**42,629,823**	**385,451**	**52,606,111**	**1,776,988**	**50,829,123**

(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**

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 2010, loans and advances include euro 90,098 thousand of restructured loans (31 December 2009: euro 103,197 thousand). 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 382.4 million (31 December 2009: euro 395.6 million), 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)

	31.12.2010	31.12.2009
Fixed interest rate	5,776,929	4,919,532
Variable interest rate	46,829,182	45,611,622
	52,606,111	**50,531,154**

An analysis of finance lease loans by maturity is presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Gross investment in finance leases, receivable		
Up to 1 year	550,083	548,974
From 1 to 5 years	1,473,693	1,416,826
More than 5 years	1,861,778	1,982,437
	3,885,554	**3,948,237**
Unearned future finance income on finance leases		
Up to 1 year	80,102	46,704
From 1 to 5 years	222,904	154,929
More than 5 years	200,221	260,797
	503,227	**462,430**
Net investment in finance leases		
Up to 1 year	469,981	502,270
From 1 to 5 years	1,250,789	1,261,897
More than 5 years	1,661,557	1,721,640
	3,382,327	**3,485,807**

NOTE 22 – Held-to-Maturity Investments

The held-to-maturity investments can be analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Bonds and other fixed income securities		
Issued by government and public entities	827,260	583,578
Issued by other entities	1,681,634	1,992,816
	2,508,894	**2,576,394**
Impairment losses	(50,094)	(34,565)
	2,458,800	**2,541,829**

As at 31 December 2010 and 2009, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Up to 3 months	160,750	127,020
3 to 12 months	179,517	374,842
1 to 5 years	1,196,592	1,119,752
More than 5 years	921,941	920,215
	2,458,800	**2,541,829**

The analysis of the held-to-maturity investments by quoted and unquoted securities is presented as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	824,982	2,278	827,260	583,578	-	583,578
Issued by other entities	928,651	702,889	1,631,540	1,132,075	826,176	1,958,251
	1,753,633	705,167	2,458,800	1,715,653	826,176	2,541,829

As at 31 December 2010 and 2009 the changes occurred in impairment losses of held-to-maturity investments are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	**34,565**	**-**
Charge for the year	46,744	44,107
Charge off	(30,702)	(8,140)
Exchange differences and other	(513)	(1,402)
Balance at the end of the year	**50,094**	**34,565**

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 million, as follows:

(in thousands of euro)

	Acquisition cost	Reclassification date					Market value as at 31 December 2008	Amortization of the fair value reserve until 31 December 2010 [c]
		Book value	Fair value reserve		Future Cash-flows value [a]	Effective rate [b]		
			Positive	Negative				
Available-for-sale financial assets	551,897	522,715	424	(29,607)	701,070	5.75%	485,831	15,488
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**	**15,488**

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.
c) The amount of the fair value reserve amortised during 2010 amounted to euro 5,886 thousand. (31 December 2009: euro 8,698 thousand)).

The reclassification of financial assets held-for-trading as held-to-maturity investments was made 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. 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.

If the reclassification of financial assets had not occurred, the impact in the financial statements of the Group would be as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Finacial Assets and liabilities at fair value through profit and loss		
Impact on profit and loss for the year	(4,838)	(6,493)
Tax effect	524	902
	(4,314)	(5,591)
Available-for-sale financial assets		
Impact on fair value reserve	8,269	5,738
Tax effect	(2,031)	(1,320)
	6,238	4,418

During the years 2010 and 2009, no transfers were made to this category of assets.

NOTE 23 – Derivatives for Risk Management Purposes

As at 31 December 2010 and 2009, the fair value of the derivatives for risk management purposes can be analysed as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives for risk management purposes						
Derivatives for risk management purposes - assets	255,908	191,396	447,304	291,678	163,437	455,115
Derivatives for risk management purposes - liabilities	(88,057)	(140,887)	(228,944)	(92,843)	(160,305)	(253,148)
	167,851	**50,509**	**218,360**	**198,835**	**3,132**	**201,967**
Fair value component of assets and liabilities being hedged						
Financial assets						
Deposits at banks	-	-	-	-	225	225
Loans and advances to customers	21,140	-	21,140	2,227	27,050	29,277
	21,140	**-**	**21,140**	**2,227**	**27,275**	**29,502**
Financial liabilities						
Deposits from banks	(29,639)	(538)	(30,177)	(23,805)	(7,720)	(31,525)
Due to customers	(3,323)	(14,760)	(18,083)	(5,549)	15,468	9,919
Debt securities issued	(42,004)	119,308	77,304	(72,255)	(45,858)	(118,113)
Subordinated debt	(863)	-	(863)	2,566	-	2,566
	(75,829)	**104,010**	**28,181**	**(99,043)**	**(38,110)**	**(137,153)**
	(54,689)	**104,010**	**49,321**	**(96,816)**	**(10,835)**	**(107,651)**

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 2010 and 2009, the fair value hedge relationships present the following features:

(in thousands of euro)

31.12.2010

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	2,048,700	(10,064)	2,759	21,140	(4,307)
Interest Rate Swap/ Currency Interest Rate Swap	Deposits from banks	Interest rate	192,444	31,622	5,260	(29,639)	(5,596)
Interest Rate Swap	Due to customers	Interest rate	125,417	7,932	(2,206)	(3,323)	2,227
Interest Rate Swap	Debt security issued	Interest rate	4,540,844	137,033	(27,403)	(41,828)	28,734
Currency Interest Rate Swap	Debt security issued	Interest rate and FX	18,807	585	(443)	(176)	425
Currency Interest Rate Swap	Subordinated loans	Interest rate and FX	276,104	743	(5,382)	(863)	(2,906)
			7,202,316	**167,851**	**(27,415)**	**(54,689)**	**18,577**

(1) Attributable to the hedged risk
(2) Includes accrued interest

(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	2,026,046	(33,094)	2,206	29,277	1,424
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)
			8,063,877	**168,555**	**(49,946)**	**(69,766)**	**59,376**

(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 2010, the ineffectiveness of the fair value hedge operations amounted to a cost of euro 8.8 million (31 December 2009: profit of euro 9.4 million) 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)

		31.12.2010						
		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	-	-	13	-	(236)	-	-
	Liabilities							
Interest Rate Swap	Deposits from banks	262,007	41,353	(40,532)	117	(671)	163,914	289,617
FX Swap	Deposits from banks	391,395	667	128	(669)	(128)	392,064	391,395
Credit Default Swap	Deposits from banks	5,500	(124)	(142)	14	11	2,485	2,500
Interest Rate Swap	Due to customers	3,373,000	48,087	19,089	(14,760)	(30,142)	3,995,152	4,013,920
Interest Rate Swap/ Fx forwards	Debt security issued	1,422,772	(13,897)	14,563	117,996	54,527	424,205	545,001
Credit Default Swap	Debt security issued	95,330	(10,389)	(9,621)	7,732	10,212	141,652	147,637
Equity Swap	Debt security issued	295,382	(15,518)	(22,396)	(6,418)	12,650	237,948	226,512
Equity Option	Debt security issued	16,027	322	783	19	39	10,391	10,387
Fx Option	Debt security issued	605	8	(192)	(21)	255	15,475	15,453
		5,862,018	**50,509**	**(38,307)**	**104,010**	**46,517**	**5,383,286**	**5,642,422**

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity.

(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
	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
		9,163,047	**33,412**	**141,461**	**(37,885)**	**(184,311)**	**10,569,958**	**10,560,410**

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity.

As at 31 December 2010, 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 151,411 thousand of cumulative profits (31 December 2009: euro 68,755 thousand of profits) and euro 82,656 thousand of profits for the year (31 December 2009: euro 40,970 thousand of costs for the year).

As at 31 December 2010 and 2009, the operations with derivatives for risk management purposes by period to maturity, can be analysed as follows:

(in thousands of euro)

	31.12.2010		31.12.2009	
	Notional	Fair Value	Notional	Fair Value
Up to 3 months	2,944,529	37,054	6,924,107	(7,651)
3 to 12 months	845,832	3,068	2,677,758	65,787
1 to 5 years	7,144,996	95,559	5,361,209	126,035
More than 5 years	2,128,977	82,679	2,263,850	17,796
	13,064,334	218,360	17,226,924	201,967

NOTE 24 – Non-Current Assets and Liabilities Held for Sale

This balance as at 31 December 2010 and 2009 is analysed as follows:

(in thousands of euro)

	31.12.2010		31.12.2009	
	Assets	Liabilities	Assets	Liabilities
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	21,423	5,411	36,484	21,609
Property held for sale	641,112	-	421,704	-
Equipment	1,840	-	2,063	-
	642,952	-	423,767	-
Impairment losses	(89,825)	-	(52,666)	-
	553,127	-	371,101	-
	574,550	5,411	407,585	21,609

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 2010, the amount of property held for sale includes euro 12,848 thousand (31 December 2009: euro 16,224 thousand) related to discontinued branches, in relation to which the Group recognised an impairment loss amounting to euro 3,924 thousand (31 December 2009: euro 8,764 thousand).

The changes occurred in non-current assets held for sale during 2010 and 2009, are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	460,251	302,267
Additions	464,923	399,959
Sales	(260,003)	(242,540)
Other	(796)	565
Balance at the end of the year	664,375	460,251

Following the sales occurred in 2010, the Group incurred on a loss in the amount of euro 12,727 thousand (31 December 2009: loss of euro 14,012 thousand).

The changes occurred in impairment losses are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	52,666	31,379
Charge for the year	58,489	36,960
Charge off	(20,291)	(15,628)
Write back for the year	(965)	(38)
Exchange differences and other	(74)	(7)
Balance at the end of the year	89,825	52,666

NOTE 25 – Property and Equipment

As at 31 December 2010 and 2009 this balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Property		
For own use	445,224	425,429
Improvements in leasehold property	238,604	230,473
Other	1,237	570
	685,065	656,472
Equipment		
Computer equipment	288,067	267,317
Fixtures	134,134	128,045
Furniture	124,373	121,645
Security equipment	35,655	34,203
Office equipment	35,696	34,433
Motor vehicles	8,955	6,212
Other	5,227	5,470
	632,107	597,325
Other	765	825
	1,317,937	1,254,622
Work in progress		
Improvements in leasehold property	1,577	2,160
Property for own use	250,609	116,675
Equipment	9,597	4,790
Other	151	299
	261,934	123,924
	1,579,871	1,378,546
Accumulated depreciation	(770,834)	(719,773)
	809,037	658,773

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 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 [(a)]	25,668	12,183	-	(43,768)	(5,917)
ES Contact Center deconsolidation	(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
Acquisitions	22,231	22,765	-	149,869	194,865
Disposals	(5,898)	(6,958)	-	(31)	(12,887)
Transfers [(a)]	2,495	6,354	6	(14,733)	(5,878)
Exchange differences and other [(b)]	9,765	12,621	(66)	2,905	25,225
Balance as at 31 December 2010	685,065	632,107	765	261,934	1,579,871
Depreciation					
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 [(a)]	(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
Acquisitions	22,109	39,822	46	-	61,977
Disposals	(5,316)	(6,897)	-	-	(12,213)
Transfers [(a)]	(1,502)	(77)	-	-	(1,579)
Exchange differences and other [(b)]	927	2,022	(73)	-	2,876
Balance as at 31 December 2010	274,409	496,173	252	-	770,834
Net amount as at 31 December 2010	410,656	135,934	513	261,934	809,037
Net amount as at 31 December 2009	398,281	136,022	546	123,924	658,773

(a) Property and equipmente relating discontinued branches that were transfer by their net value to non current assets held for sale.
(b) Includes euro 19,726 thousand from property and equipment and euro 4,487 thousand of accumulated depreciation related to the inclusion of Aman Bank in the consolidation scope.

The balance Equipment – Motor vehicles includes equipment acquired under finance lease agreements, whose payment schedule is as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Gross investment in finance leases, payable		
Up to 1 year	23	23
1 to 5 years	46	68
	69	91
Overdue interest		
Up to 1 year	4	4
1 to 5 years	4	8
	8	12
Overdue loans		
Up to 1 year	19	19
1 to 5 years	42	60
	61	79

NOTE 26 – Intangible Assets

As at 31 December 2010 and 2009 this balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Goodwill	**95,616**	**17,287**
Internally developed		
Software	38,360	28,479
Acquired to third parties		
Software	561,677	517,338
Other	1,312	1,301
	562,989	**518,639**
Work in progress	**35,732**	**27,549**
	732,697	591,954
Accumulated amortisation	(497,360)	(452,326)
Impairment losses	(1,800)	(1,743)
	233,537	137,885

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).

Goodwill is recognised in accordance with the accounting policy described in Note 2.2, being analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Subsidiaries		
ES Investment Holding [a] (see Note 45)	46,046	-
Gespastor (see Note 45)	19,000	-
Aman Bank (see Note 45)	15,533	-
Concordia	1,800	1,743
Other	2,885	5,192
Other cash-generating units		
Asset Management	2,459	2,459
Leasing and Factoring	7,893	7,893
	95,616	17,287
Impairment losses	(1,800)	(1,743)
	93,816	15,544

(a) Execution Noble Holding

The movement in this balance was as follows:

(in thousands of euro)

	Goodwill	Software	Other	Work in progress	Total
Acquisition cost					
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
Acquisitions:					
Internally developed	-	-	-	8,899	8,899
Acquires from third parties [(b)]	80,579	11,339	18	35,896	127,832
Disposals	-	(474)	(36)	(43)	(553)
Transfers	-	36,533	-	(36,533)	-
Exchange differences and other	(2,250)	6,822	29	(36)	4,565
Balance as at 31 December 2010	95,616	600,037	1,312	35,732	732,697
Amortisations					
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
Amortisations of the year	-	37,984	131	-	38,115
Disposals	-	(402)	(35)	-	(437)
Exchange differences and other	-	7,331	25		7,356
Balance as at 31 December 2010	-	496,211	1,149	-	497,360
Impairment					
Balance as at 31 December 2008	-	-	-	-	0
Impairment losses **(c)**	956	-	-	-	956
Exchange differences and other	787	-	-	-	787
Balance as at 31 December 2009	1,743	-	-	-	1,743
Impairment losses	-	-	-	-	-
Exchange differences and other	57	-	-	-	57
Balance as at 31 December 2010	1,800	-	-	-	1,800
Net amounts at 31 December 2010	93,816	103,826	163	35,732	233,537
Net amount at 31 December 2009	15,544	94,519	273	27,549	137,885

(a) In the scope of ES Data liquidation, the Group recognised as a loss the goodwill in the amount of euro 3,691 thousand.
(b) In the scope of Aman Bank, Execution Noble and Gespastor acquisitions, it was recognised goodwill in the amount of euro 15,533 thousand, euro 46,046 thousand and euro 19,000 thousand, respectively.
(c) Concordia goodwill impairment loss.

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	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
BES VIDA	8,013,503	8,066,515	7,860,505	7,853,653	152,998	212,862	1,157,310	661,237	37,329	41,511
ES VÉNÉTIE	1,631,953	1,299,980	1,473,339	1,149,362	158,614	150,618	63,644	59,545	8,485	4,049
LOCARENT	344,148	323,156	339,177	316,734	4,971	6,422	95,107	100,896	1,570	1,200
BES SEGUROS	120,028	127,345	95,738	99,903	24,290	27,442	66,183	63,782	4,015	5,540
ESEGUR	48,794	50,321	38,554	39,758	10,240	10,563	48,264	60,888	1,000	1,800
EUROP ASSISTANCE	39,883	41,694	31,098	31,549	8,785	10,145	40,369	32,252	1,475	1,881
FUNDO ES IBERIA	18,824	24,109	15	2,235	18,809	21,874	2,626	422	1,947	(1,959)
SCI GEORGES MANDEL	11,198	12,802	12	1,010	11,186	11,792	947	1,029	515	600
BRB INTERNACIONAL	11,788	11,081	10,240	10,418	1,548	663	4,612	2,058	(120)	(422)
AUTOPISTA PEROTE-XALAPA	417,532	311,049	274,137	171,882	143,395	139,167	-	-	(514)	-
LUSOSCUT COSTA DE PRATA	504,386	565,404	450,672	519,510	53,714	45,894	19,254	57,968	7,922	18,220
LUSOSCUT BEIRA LITORAL E ALTA	958,226	991,576	800,794	891,095	157,432	100,481	26,068	116,623	14,509	22,565
LUSOSCUT GRANDE PORTO	738,043	703,216	652,655	659,879	85,388	43,337	16,251	65,453	7,899	5,619
ASCENDI GROUP	3,640,996	-	3,389,487	-	251,509	-	269,305	-	140,166	-
ASCENDI	45,394	33,553	46,915	32,053	-1,521	1,500	-	-	(1,312)	(1,128)
EMPARK	730,904	666,468	594,657	533,831	136,247	132,637	16,703	15,828	7,315	(824)
AUVISA - AUTOVIA DE LOS VIÑEDOS	242,013	-	212,200	-	29,813	-	14,083	-	1,668	-
UNICRE	310,155	-	195,880	-	114,275	-	255,568	-	6,469	-
RODI SINKS & IDEAS	45,211	43,682	24,196	26,015	21,015	17,667	22,401	16,719	3,665	902
SCUTVIAS	802,170		729,831	-	72,339	-	96,488	-	10,907	-

Note: Information adjusted for consolidation purposes

(in thousands of euro)

	Participation Cost		Economic Interest		Book Value		Share of profits of associates	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
BES VIDA b)	474,997	474,997	50.00%	50.00%	387,394	420,521	15,469	17,182
ES VÉNÉTIE	42,293	42,293	42.69%	42.69%	67,853	64,439	3,622	1,728
LOCARENT	2,967	2,967	50.00%	50.00%	2,796	3,521	785	544
BES SEGUROS	3,749	3,749	25.00%	25.00%	6,070	6,858	1,004	1,385
ESEGUR	9,634	9,634	44.00%	44.00%	11,350	11,491	440	792
EUROP ASSISTANCE	1,147	1,147	23.00%	23.00%	2,021	2,333	339	433
FUNDO ES IBERIA	8,708	10,496	38.69%	38.69%	7,287	8,799	310	(366)
SCI GEORGES MANDEL	2,401	2,401	22.50%	22.50%	2,518	2,653	116	135
BRB INTERNACIONAL	10,659	10,034	24.93%	24.93%	243	157	86	(505)
AUTOPISTA PEROTE-XALAPA a)	35,056	35,056	8.19%	8.19%	28,679	27,834	(103)	-
LUSOSCUT COSTA DE PRATA	-	10,442	-	9.17%	-	22,210	1,271	3,513
LUSOSCUT BEIRA LITORAL E ALTA	-	23,093	-	9.17%	-	45,497	2,267	3,658
LUSOSCUT GRANDE PORTO	-	25,165	-	9.17%	-	21,062	958	21
ASCENDI GROUP a)	163,341	-	16.38%	-	170,259	-	6,918	-
ASCENDI	-	2,400	-	16.38%	-	1,000	(525)	(1,371)
EMPARK a)	55,013	61,413	9.17%	11.77%	54,003	61,424	772	-
AUVISA - AUTOVIA DE LOS VIÑEDOS	41,056	-	20.48%	-	37,081	-	31	-
UNICRE	11,497	-	17.50%	-	19,998	-	8,479	-
RODI SINKS & IDEAS	1,240	1,240	24.81%	25.29%	7,528	6,096	1,432	323
SCUTVIAS a)	50,669	-	9.11%	-	50,669	-	-	-
Other	110,541	94,293			106,159	87,920	(6,496)	2,505
	1,024,968	**810,820**			**961,908**	**793,815**	**37,175**	**29,977**

a) Although the Group's economic interest is less than 20%, this entities were consolidated under the equity method, as the Group exercises a significant influence over their activities.
b) Includes goodwill in the amount of euro 267,440 thousand and value-in-force in the amount of euro 43,454 thousand (31 December 2009: euro 46,651 thousand).

The movement occurred in this balance is presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	793,815	644,506
Disposals	(99,682)	(5,149)
Acquisitions (see Note 1)	292,619	98,828
Share of profit of associates	37,175	29,977
Fair value reserve from investments in associates [(a)]	(48,485)	36,659
Dividends received	(15,927)	(3,749)
Exchange differences and other	2,393	(7,257)
Balance	**961,908**	**793,815**

(a) Reflects mainly the fair value reserve adjustments related to BES Vida

NOTE 28 – Other Assets

As at 31 December 2010 and 2009, the balance other assets is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Debtors		
Deposits placed with futures contracts	48,958	68,087
Recoverable government subsidies on mortgages loans	42,264	34,328
Debtors for unrealised capital of subsidiaries	3,500	-
Deposit accounts	960,404	737,185
Loans to companies in which the Group has a minority interest	127,520	128,903
Public sector	124,978	84,419
Other debtors	424,321	253,829
	1,731,945	1,306,751
Impairment losses on debtors	(15,047)	(18,733)
	1,716,898	**1,288,018**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	11,979	12,927
Other assets	87,371	70,866
	99,350	**83,793**
Accrued income	**81,814**	**66,257**
Prepayments and deferred costs	**105,654**	**102,326**
Other sundry assets		
Foreign exchange transactions pending settlement	149,578	161,309
Stock exchange transactions pending settlement	666,499	291,991
Other transactions pending settlement	377,951	414,633
	1,194,028	**867,933**
Assets recognised on pensions and health benefits (see note 12)	**885,475**	**912,141**
	4,083,219	**3,320,468**

Loans to companies in which the Group has a non-controlling interests include the amount of euro 110,000 thousand related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2009: euro 110 000 thousand related with loans).

As at 31 December 2010, the balance prepayments and deferred costs includes the amount of euro 62,719 thousand (31 December 2009: euro 65,613 thousand) 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)

	31.12.2010	31.12.2009
Balance at the beginning of the year	18,733	16,948
Charge for the year	6,167	8,196
Charge off	(5,938)	(3,474)
Write back for the year	(7,556)	(2,276)
Other	3,641	(661)
Balance at the end of the year	**15,047**	**18,733**

NOTE 29 – Deposits from Central Banks

The balance deposits from central banks is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
From the European System of Central Banks		
Inter-bank money market	264,500	-
Deposits	153,806	5,438
Other funds	4,800,000	2,000,000
	5,218,306	2,005,438
From other Central Banks		
Deposits	2,438,247	1,373,076
Repurchase agreements	308,267	439,129
	2,746,514	1,812,205
	7,964,820	3,817,643

As at 31 December 2010 and 2009, Other funds from the European System of Central Banks in the amount of euro 5,065 million and euro 2,000 million, respectively, are covered by securities from the available-for-sale portfolio pledged as collaterals (see Note 39).

As at 31 December 2010, the balance Deposits from other Central Banks – Deposits includes the amount of euro 1,356 million related to deposits with Angola National Bank (31 December 2009: euro 1,083 million).

As at 31 December 2010 and 2009, the analysis of deposits from Central Banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Up to 3 months	3,815,995	1,812,365
3 to 12 months	4,148,825	2,005,278
	7,964,820	3,817,643

NOTE 30 – Deposits from Banks

The balance deposits from banks is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Domestic		
Loans	32,495	-
Inter-bank money market	18,650	20,640
Deposits	339,774	180,660
Very short term funds	44,148	103,987
Other funds	5,276	2,561
	440,343	307,848
International		
Deposits	1,434,200	3,802,460
Loans	2,123,528	1,814,972
Very short term funds	201,357	427,877
Repurchase agreements	1,874,668	333,489
Other funds	306,496	209,074
	5,940,249	6,587,872
	6,380,592	6,895,720

As at 31 December 2010, this balance includes the amount of euro 558,463 thousand (31 December 2009: 101,598 thousand) related to deposits recognized on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2010 and 2009 the analysis of deposits from banks by maturity is presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Up to 3 months	1,355,063	4,747,223
3 to 12 months	2,478,986	310,536
1 to 5 years	1,338,735	1,091,938
More than 5 years	1,207,808	746,023
	6,380,592	6,895,720

NOTE 31 – Due to Customers

The balance due to customers is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Repayable on demand		
Demand deposits	8,676,475	7,387,751
Time deposits		
Time deposits	19,426,116	14,724,529
Other	133,543	109,614
	19,559,659	14,834,143
Savings accounts		
Pensioners	29,751	57,381
Other	1,758,470	1,826,196
	1,788,221	1,883,577
Other funds		
Repurchase agreements	436,619	785,275
Other	358,246	555,704
	794,865	1,340,979
	30,819,220	25,446,450

This balance includes the amount of euro 4,026,565 thousand (31 December 2009: euro 1,437,369 thousand) 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)

	31.12.2010	31.12.2009
Repayable on demand	8,676,475	7,387,751
With agreed maturity		
Up to 3 months	9,017,925	12,146,742
3 to 12 months	8,353,630	3,969,939
1 to 5 years	4,644,123	1,819,118
More than 5 years	127,067	122,900
	22,142,745	18,058,699
	30,819,220	25,446,450

NOTE 32 – Debt Securities Issued

The balance debt securities issued is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Euro Medium Term Notes (EMTN)	11,575,244	11,875,102
Certificates of deposit	1,748,683	9,277,165
Bonds [a)]	4,049,569	6,203,876
Covered bonds	2,333,906	3,649,359
Other	4,402,537	2,095,597
	24,109,939	33,101,099

a) As at 31 December 2010, includes the amount of euro 1,584 million of deposits guaranteed by the Portuguese Republic (31 December 2009: euro 1,567 million).

The fair value of the debts securities issued is presented in Note 43.

This balance includes the amount of euro 823,416 thousand (31 December 2009: euro 8,254,205 thousand) related with debt securities issued recorded in the balance sheet at fair value through profit or loss (see Note 23).

During the year ended 31 December 2010, BES Group issued covered bonds in the amount of euro 5,540 million, under the Covered Bonds Programme, which has a maximum amount of euro 10,000 million.

The main characteristics of these issues are as follows:

(in thousands of euro)

Designation	**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	1,303,743	25/1/08	25/1/11	Annually	4.375%	AAA
BES Covered Bonds 21/07/2010	1,250,000	-	21/7/08	21/7/10	Annually	1 month Euribor + 0.45%	AAA
BES Covered Bonds 3.375%	1,000,000	991,969	17/11/09	17/2/15	Annually	3.375%	AAA
BES Covered Bonds DUE JUL 17	750,000	-	7/7/10	9/7/17	Annually	6 month Euribor + 0.60%	AAA
BES Covered Bonds 21/07/2017	1,250,000	-	21/7/10	21/7/17	Annually	6 month Euribor + 0.60%	AAA
BES Covered Bonds DUE 4.6%	40,000	38,194	15/12/10	26/1/17	Annually	4.600%	Aa2

The covered bonds are guaranteed by a cover 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.

As at 31 December 2010, the mortgage loans that collateralise these covered bonds amounted to euro 4,963,051 thousand (31 December 2009: euro 4,053,833 thousand) (see Note 21).

The changes occurred in debt securities issued during the year ended 31 December 2010 are analysed as follows:

(in thousands of euro)

	Balance as at 31.12.2009	**Issues**	**Repayments**	**Net repurchase**	**Other movements** [a)]	**Balance as at 31.12.2010**
Euro Medium Term Notes (EMTN)	11,875,102	3,670,161	(3,486,472)	(441,790)	(41,757)	11,575,244
Certificates of deposit	9,277,165	-	(7,488,987) [b)]	-	(39,495)	1,748,683
Bonds	6,203,876	35,000	(1,115,234)	(800,286)	(273,787)	4,049,569
Covered bonds	3,649,359	40,000	(1,250,000)	(32,938)	(72,515)	2,333,906
Other	2,095,597	7,398,570	(4,787,422)	(249,724)	(54,484)	4,402,537
	33,101,099	**11,143,731**	**(18,128,115)**	**(1,524,738)**	**(482,038)**	**24,109,939**

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 and 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)

	31.12.2010	**31.12.2009**
Up to 3 months	6,841,507	10,133,346
3 to 12 months	1,571,931	5,121,041
1 to 5 years	11,319,948	13,266,840
More than 5 years	4,376,553	4,579,872
	24,109,939	**33,101,099**

The main characteristics of debt securities issued are presented as follows:

(in thousands of euro)

			31.12.2010				
Issuer	**Designation**		**Currency**	**Issue Date**	**Book value**	**Maturity**	**Interest rate**
BES	BIC E.RENDA 4%	a)	EUR	2005	2,628	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	9,210	2013	Fixed rate 4.15% on 1st, 2nd and 8th years + swap rate from 3th to 7th years.
BES	BES ER 4% ABR05	a)	EUR	2005	2,561	2013	Fixed rate 4.08% on 1st, 2nd e 8th years + swap rate from 3th to 7th years
BES	BES ER 4% ABR05	a)	EUR	2005	1,926	2013	Fixed rate 4.14% on 1st, 2nd and 8th years + swap rate from 3th to 7th years.
BES	BES ER3,75%0805	a)	EUR	2005	2,613	2013	Fixed rate 3.85% on 1st, 2nd and 8th years + swap rate from 3th to 7th years.
BES	BES COMMODIT 7%	a)	EUR	2005	1,249	2014	Fixed rate - 7.00%
BES	BES DUE 2012		EUR	2007	1,000,555	2012	3 months Euribor + 0.10%
BES	BES DUE 2013		EUR	2007	496,602	2013	3 months Euribor + 0.125%
BES	BES DUE JUN 14		EUR	2007	483,618	2014	3 months Euribor + 0.15%
BES	BES 25/01/2011 (covered bonds)		EUR	2008	1,303,742	2011	Fixed rate 4.38%
BES	BES DUE 2034 0		EUR	2008	6	2034	Zero Coupon
BES	BES DUE 2035 0		EUR	2008	7	2035	Zero Coupon
BES	BES DUE 2036 0		EUR	2008	24,107	2036	Zero Coupon
BES	BES DUE 2037 0		EUR	2008	3	2037	Zero Coupon
BES	BES DUE 2038 0		EUR	2008	4	2038	Zero Coupon
BES	BES 3,75%		EUR	2009	1,584,008	2012	Fixed rate - 3.75%
BES	BES DUE 2011		EUR	2009	173,472	2011	3 months Euribor + 2%
BES	BES DUE 2012		EUR	2009	311,142	2012	Fixed rate 4.43%
BES	BES RENDIM.CR.		EUR	2009	926	2012	Fixed rate - 3.35%
BES	BES REND.CR.		EUR	2009	20,916	2012	Fixed rate - 3.85%
BES	BES 5,625% 2014		EUR	2009	1,791,129	2014	Fixed rate - 5.63%
BES	BES CR.OUT.09		EUR	2009	1,300	2012	j)
BES	BES 3,375% (covered bonds)		EUR	2009	991,969	2015	Fixed rate 3.375%
BES	BES DUE 02/2013		EUR	2009	958,915	2013	3 months Euribor + 1%
BES	BES R.FIXO 1		EUR	2009	10,058	2012	Fixed rate 4.05%
BES	BES R.FIXO 2		EUR	2009	10,058	2012	Fixed rate 4.05%
BES	BES R.FIXO 3		EUR	2009	10,058	2012	Fixed rate 4.05%
BES	BES R.FIXO 4		EUR	2009	10,058	2012	Fixed rate 4.05%
BES	BES R.FIXO 5		EUR	2009	10,058	2012	Fixed rate 4.05%
BES	BES R.FIXO 6		EUR	2009	4,019	2012	Fixed rate 3.45%
BES	BES R.FIXO 7		EUR	2009	4,019	2012	Fixed rate 3.45%
BES	BES R.FIXO 8		EUR	2009	4,019	2012	Fixed rate 3.45%
BES	BES R.FIXO 9		EUR	2009	4,019	2012	Fixed rate 3.45%
BES	BES R.FIXO 10		EUR	2009	4,019	2012	Fixed rate 3.45%
BES	BES DUE 3,875%		EUR	2010	752,331	2015	Fixed rate 3.875%
BES	BES DUE MAR.12		EUR	2010	150,106	2012	3 months Euribor + 0.94%
BES	BES DUE JUL 17		EUR	2010	1	2017	6 months Euribor + 0.60%
BES	BES DUE 4,6%		EUR	2010	38,194	2017	Fixed rate 4.6%
BES (Cayman Branch)	BIC CAYMAN 15 2001		EUR	2001	52,436	2011	Fixed rate - 5.79%
BES (Cayman Branch)	BIC CAYMAN 16 2001		EUR	2001	86	2011	Fixed rate - 5.90%
BES (Cayman Branch)	BIC CAYMAN 29 2001		EUR	2001	51,516	2011	Fixed rate - 5.28%
BES (Cayman Branch)	BIC CAYMAN 30 2001		EUR	2001	50,514	2011	Fixed rate - 5.42%
BES (Cayman Branch)	BIC CAYMAN 17 2001		EUR	2001	7	2012	Fixed rate - 5.89%
BES (Cayman Branch)	BIC CAYMAN 18 2001		EUR	2001	51,846	2012	Fixed rate - 5.83%
BES (Cayman Branch)	BIC CAYMAN 20 2001		EUR	2001	51,815	2012	Fixed rate - 5.94%
BES (Cayman Branch)	BIC CAYMAN 22 2001		EUR	2001	77,643	2013	Fixed rate - 6.08%
BES (Cayman Branch)	BIC CAYMAN 23 2001		EUR	2001	80,872	2013	Fixed rate - 6.03%
BES (Cayman Branch)	BIC CAYMAN 25 2001		EUR	2001	81,165	2014	Fixed rate - 6.02%
BES (Cayman Branch)	BIC CAYMAN 26 2001		EUR	2001	56,465	2015	Fixed rate - 6.16%
BES (Cayman Branch)	BIC CAYMAN 27 2001		EUR	2001	50,056	2015	Fixed rate - 6.09%
BES (Cayman Branch)	BIC CAYMAN 1 2002		EUR	2002	55,695	2012	Fixed rate - 5.92%
BES (Cayman Branch)	BIC CAYMAN 2 2002		EUR	2002	6,311	2012	Fixed rate - 4.65%
BES (Cayman Branch)	BES CAYMAN - Zero Coupon		EUR	2002	19,660	2027	Zero Coupon - Effective rate 5.74%
BES (Cayman Branch)	BES CAYMAN Step Up 07/25/13		USD	2003	57,802	2013	StepUp (1st coupon 1.50%)
BES (Cayman Branch)	BES CAYMAN Step Up 08/27/13		EUR	2003	81,334	2013	StepUp (1st coupon 3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 09/02/13		EUR	2003	81,636	2013	StepUp (1st coupon 3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 10/07/13		EUR	2003	81,061	2013	StepUp (1st coupon 3.10%)
BES (Cayman Branch)	BES CAYMAN 5,06% 02/11/15		USD	2003	17	2015	Fixed rate - 5.06%
BES (Cayman Branch)	BES CAYMAN 5,01% 02/18/15		USD	2003	8	2015	Fixed rate - 5.01%
BES (Cayman Branch)	BES CAYMAN ZC 02/18/2028		EUR	2003	16,368	2028	Zero Coupon - Effective rate 5.50%
BES (Cayman Branch)	BES CAYMAN - Zero Coupon		EUR	2003	43,066	2028	Zero Coupon - Effective rate 5.81%
BES (Cayman Branch)	BES CAYMAN Step Up 07/21/14		USD	2004	58,187	2014	StepUp (1st coupon 2.07%)
BES (Cayman Branch)	BES CAYMAN Step Up 02/11/19		USD	2004	39,680	2019	StepUp (1st coupon 1.78%)
BES (Cayman Branch)	BES CAYMAN ZC 28/03/2033		EUR	2008	33,508	2033	Zero Coupon - Effective rate 5.69%
BES (London Branch)	Certificate deposit	a)	EUR	2008	405,441	2010	4.13% - 4.87%

(in thousands of euro)

					31.12.2010		
Issuer	Designation		Currency	Issue Date	Book value	Maturity	Interest rate
BES (London Branch)	Certificate deposit	a)	GBP	2008	29,625	2010	5.51% - 6.72%
BES (London Branch)	Certificate deposit	a)	USD	2008	1,194,545	2010	4.79% - 5.47%
BES (New York Branch)	Certificate deposit		USD	2007	116,093	2010	4.41% - 5.53%
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	84,698	2016	Fixed rate 4.25%
BES Açores	BES AÇOR.DEZ.08		EUR	2008	6,564	2011	3 months Euribor + 1.25%
BES Açores	BES AÇOR.SET.09		EUR	2009	4	2012	3 months Euribor + 1.5%
BES Finance	EMTN 30		EUR	2004	290,665	2011	3 months Euribor + 0.20%
BES Finance	EMTN 37		EUR	2004	27,290	2029	Zero Coupon - Effective rate 5.30%
BES Finance	EMTN 39		EUR	2005	100,251	2015	3 months Euribor + 0.23%
BES Finance	EMTN 40	a)	EUR	2005	130,032	2035	aw)
BES Finance	EMTN 48		EUR	2006	748,202	2011	3 months Euribor + 0.12%
BES Finance	EMTN 49	a)	GBP	2006	70,943	2011	3 months Libor + 0.072%
BES Finance	EMTN 51		CZK	2006	20,554	2011	Fixed rate - 3.65%
BES Finance	EMTN 53		EUR	2006	495,941	2011	3 months Euribor + 0.15%
BES Finance	Exchangeable Bonds		USD	2008	514,221	2011	ax)
BES Finance	EMTN 56		EUR	2009	31,966	2043	Zero Coupon
BES Finance	EMTN 57		EUR	2009	30,127	2044	Zero Coupon
BES Finance	EMTN 58		EUR	2009	28,421	2045	Zero Coupon
BES Finance	EMTN 59		EUR	2009	37,147	2042	Zero Coupon
BES Finance	EMTN 60		EUR	2009	41,541	2040	Zero Coupon
BES Finance	EMTN 61		EUR	2009	39,308	2041	Zero Coupon
BES Finance	EMTN 62		EUR	2009	78,212	2039	Zero Coupon
BES Finance	EMTN 63		EUR	2009	144,817	2039	Fixed rate 3%
BES Finance	EMTN 64		EUR	2009	160,455	2040	Fixed rate 3%
BES Finance	Exchangeable Bonds (Bradesco)	a)	USD	2010	674,274	2013	Fixed rate 1.625%
BES Finance	Exchangeable Bonds (EDP)	a)	EUR	2010	450,632	2019	Fixed rate 3%
BES Finance	EMTN 65		EUR	2010	175,524	2040	Fixed rate 3%
BES Finance	EMTN 66		EUR	2010	161,766	2041	Fixed rate 3%
BES Finance	EMTN 67		EUR	2010	166,770	2041	Fixed rate 3%
BES Finance	EMTN 68		EUR	2010	20,433	2015	Fixed rate 4.25%
BES Finance	EMTN 69		EUR	2010	165,271	2042	Fixed rate 3%
BES Finance	EMTN 70		EUR	2010	192,955	2042	Fixed rate 3%
BES Finance	EMTN 71		EUR	2010	218,355	2043	Fixed rate 3%
BES Finance	EMTN 72		EUR	2010	189,358	2044	Fixed rate 3%
BES Finance	EMTN 73		EUR	2010	144,147	2046	Fixed rate 3%
BES Finance	EMTN 74		EUR	2010	20,169	2012	Fixed rate 4.5%
BES Finance	EMTN 75		EUR	2010	20,169	2012	Fixed rate 4.5%
BES Finance	EMTN 76		EUR	2010	20,169	2012	Fixed rate 4.5%
BES Finance	EMTN 77		EUR	2010	20,169	2012	Fixed rate 4.5%
BES Finance	EMTN 78		EUR	2010	20,169	2012	Fixed rate 4.5%
BES Finance	EMTN 79		EUR	2010	147,597	2047	Fixed rate 3%
BES Finance	EMTN 80		EUR	2010	140,737	2048	Fixed rate 3%
BES Finance	EMTN 81	a)	EUR	2010	6,741	2015	Fixed rate 3.19%
BES Finance	EMTN 82	a)	EUR	2010	6,741	2015	Fixed rate 3.19%
BES Finance	EMTN 83	a)	EUR	2010	6,741	2015	Fixed rate 3.19%
BES Finance	EMTN 84	a)	EUR	2010	6,741	2015	Fixed rate 3.19%
BES Finance	EMTN 85	a)	EUR	2010	6,741	2015	Fixed rate 3.19%
BES Finance	EMTN 86	a)	EUR	2010	7,184	2012	Fixed rate 2.37%
BES Finance	EMTN 87	a)	EUR	2010	7,184	2012	Fixed rate 2.37%
BES Finance	EMTN 88	a)	EUR	2010	7,184	2012	Fixed rate 2.37%
BES Finance	EMTN 89	a)	EUR	2010	7,184	2012	Fixed rate 2.37%
BES Finance	EMTN 90	a)	EUR	2010	7,184	2012	Fixed rate 2.37%
BESI	BESI CX RANGE ACCR AND FX NOV11		EUR	2005	3,136	2011	f)
BESI	BESI CAIXA 6.15% NIKKEI JAN2011	a)	EUR	2006	1,724	2011	Indexed to Nikkei 225
BESI	BESI OB CX RENDIM STEP UP APR14		EUR	2006	3,871	2014	Growing fixed rate
BESI	Certificate deposits (BESI CERT DUALREND+EUSTOXX AUG14)	a)	EUR	2006	2,979	2014	Fixed rate 6.6743% + Indexed to DJ Eurostoxx 50
BESI	BESI OBCX R.ACCRUAL TARN MAR2016		EUR	2006	374	2016	Fixed rate 6% + Range Accrual
BESI	BES INVEST BRASIL 5.75% MAY2012		USD	2009	104,176	2012	Fixed rate 5.75%
BESI	BES INVEST BRASIL 5.625% MAR2015	a)	USD	2010	363,856	2015	Fixed rate - 5.625%
BESI	BES INVEST BRASIL	a)	USD	2010	490	2013	Fixed rate - 11.53%
BESI	BESI SEP2014 EQL LINKED	a)	EUR	2010	3,638	2014	aj)
BESI	BESI SEP2014 ORIENTE IV EQL	a)	EUR	2010	12,645	2014	ao)
BESI	BES INV BRAS 9.84% SEP2011	a)	USD	2010	395	2011	Fixed rate 9.84%

(in thousands of euro)

31.12.2010							
Issuer	Designation		Currency	Issue Date	Book value	Maturity	Interest rate
BESI	BES INVEST BRASIL	a)	BRL	2010	774	2011	Fixed rate 9%
BESI	49-LCA - Letra	a)	BRL	2010	57,965	2011	From 90% to 95% of CDI
BESI	53-LF LETRA FIN	a)	BRL	2010	18,475	2011	From 100% to 112% of CDI
ES Investment Plc	ESIP JAN01/JAN11 CRDLKD US 11.85	a)	USD	2001	1,399	2011	Fixed rate 5% + Indexed to credit event
ES Investment Plc	ESIP JUL03/JUL11 LINKED CMS	a)	EUR	2003	7,772	2011	Fixed rate + Indexed to CMS+CLN
ES Investment Plc	ESIP NOV2011 CMS LINKED EUR 5M		EUR	2003	3,648	2011	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP DEC2011 CMS LINKED EUR 6.5M		EUR	2003	4,709	2011	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP JUL2012 CMS LINKED EUR 5.5M		EUR	2004	3,980	2012	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP CMS LINKED NOV2014		EUR	2004	2,938	2014	Fixed rate 6% + Indexed to CMS
ES Investment Plc	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	6,288	2024	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP RANGE ACCRUAL AND FX NOV11		EUR	2005	447	2011	f)
ES Investment Plc	ESIP RANGE ACCRUAL AUG2013		EUR	2005	4,882	2013	Fixed rate 4.75% + Range accrual
ES Investment Plc	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	1,470	2015	Range accrual
ES Investment Plc	ESIP BESLEAS&INFLAT LINK MAY15	a)	EUR	2005	8,587	2015	Indexed to HIPC Ex-Tobacco + g)
ES Investment Plc	ESIP RANGE ACCRUAL JUN15		EUR	2005	220	2015	Range accrual
ES Investment Plc	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1,194	2015	Fixed rate + Snowball h)
ES Investment Plc	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	3,873	2015	Fixed rate + Snowball h)
ES Investment Plc	ESIP CALL RANGE ACCRUAL NOV2017		EUR	2005	1,226	2017	Range accrual
ES Investment Plc	ESIP AGO05 SEP35 CALLABLE INV FL		EUR	2005	9,189	2035	12 months Euribor + i)
ES Investment Plc	ESIP 30CMS-2CMS LKD NOTE NOV2036		EUR	2005	12,189	2036	Fixed rate 7.44% + Indexed to CMS
ES Investment Plc	ESIP PORTUGAL TELECOM FIN LINKED	a)	EUR	2006	8,492	2012	g)
ES Investment Plc	ESIP EUR12M+16 BP APR2016		EUR	2006	4,032	2016	12 months Euribor
ES Investment Plc	ESIP CIMPOR FIN CRD LKD MAY2011	a)	EUR	2007	9,217	2011	g)
ES Investment Plc	ESIP JUN2011 INDEX BASKET LKD	a)	EUR	2007	251	2011	l)
ES Investment Plc	ESIP JUN2011 INDEX BASKET LINKED	a)	EUR	2007	121	2011	m)
ES Investment Plc	ESIP DEC2011 BBVA POP LINKED	a)	EUR	2007	1,063	2011	Indexed to BBVA and Banco Popular
ES Investment Plc	ESIP FEB2012 DEUTSCHE BANK LKD	a)	EUR	2007	3,176	2012	Indexed to Deutsche Telecom
ES Investment Plc	ESIP JUN2012 BASKET LINKED	a)	EUR	2007	439	2012	n)
ES Investment Plc	ESIP JUL2012 LUSITANO BSK LINKED	a)	EUR	2007	3,901	2012	am)
ES Investment Plc	ESIP METAL INVESTMENT OCT2012	a)	EUR	2007	355	2012	Commodity Linked
ES Investment Plc	ESIP MAY14 EQUITY BASKT LINKED	a)	USD	2007	1,276	2014	p)
ES Investment Plc	ESIP BCP FIN CRD LKD DEC2015	a)	EUR	2007	3,321	2015	g)
ES Investment Plc	ESIP JAN2017 INDEX BASKET LKD	a)	EUR	2007	6,009	2017	j)
ES Investment Plc	ESIP CMS LINKED JUN2019	a)	EUR	2007	23,838	2019	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP JAN2011 LUXURY GOODS	a)	EUR	2008	3,973	2011	s)
ES Investment Plc	ESIP JAN2011 BRASIL+INDIA II BSK	a)	EUR	2008	3,062	2011	Indexed to MSCI Brazil and India
ES Investment Plc	ESIP JAN2011 BASKET LINKED	a)	EUR	2008	5,974	2011	j)
ES Investment Plc	ESIP JAN2011 BRASIL+INDIA BASKET	a)	EUR	2008	3,238	2011	Indexed to MSCI Brazil and India
ES Investment Plc	ESIP JAN2011 CLIQUET MSCI BRAZIL	a)	EUR	2008	2,482	2011	Indexed MSCI Brazil
ES Investment Plc	ESIP MAR2011 EURUSD FX LINKED	a)	EUR	2008	1,330	2011	Indexed to FX
ES Investment Plc	ESIP MAR2011 BASKET LINKED	a)	EUR	2008	6,118	2011	j)
ES Investment Plc	ESIP MAY2011 AGRICULTURE LINKED	a)	EUR	2008	282	2011	Indexed to DBLCI-OY Agriculture
ES Investment Plc	ESIP MAY2011 INDEX BASKET LINKED	a)	EUR	2008	3,024	2011	t)
ES Investment Plc	ESIP JUN2011 SAN TEF LINKED	a)	EUR	2008	1,263	2011	Indexed to Telefonica and BSCH
ES Investment Plc	ESIP FTD CRD LINKED JUN2011	a)	EUR	2008	9,182	2011	u)
ES Investment Plc	ESIP AUG2011 INDEX BSKT LINK	a)	EUR	2008	3,073	2011	j)
ES Investment Plc	ESIP AUG2011 EQL BSKT LINK	a)	USD	2008	742	2011	Indexed to BBVA, Iberdrola and Telefonica
ES Investment Plc	ESIP AUG2011 INDEX BSKT LINKED	a)	EUR	2008	3,467	2011	Indexed to French inflation and DJ Eurostoxx 50
ES Investment Plc	ESIP SEP2011 INDEX BASKET LKD	a)	EUR	2008	2,802	2011	v)
ES Investment Plc	ESIP NOV2011 SX5E LINKED	a)	EUR	2008	1,047	2011	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP JAN2012 BASKET LINKED	a)	EUR	2008	3,900	2012	x)
ES Investment Plc	ESIP JAN2012 EQUITY BASKET LINKED	a)	EUR	2008	947	2012	y)
ES Investment Plc	ESIP APR2013 EURTRY LKD	a)	EUR	2008	5,559	2013	Indexed to FX
ES Investment Plc	ESIP APR2013 AEGON SHARE LKD	a)	EUR	2008	2,471	2013	Indexed to AEGON
ES Investment Plc	ESIP JUN2013 CARBON NOTES	a)	EUR	2008	4,397	2013	an)
ES Investment Plc	ESIP OCT13 EURBRL LINKED BRL	a)	EUR	2008	1,736	2013	Indexed to FX
ES Investment Plc	ESIP BARCLAYS LKD ZC MAR2016	a)	EUR	2008	2,046	2016	ZC + g)
ES Investment Plc	ESIP BARCLAYS LKD 6.30% MAR2016	a)	EUR	2008	4,814	2016	Fixed rate 6.30% + g)
ES Investment Plc	ESIP BARCLAYS LKD EUR3M MAR2016	a)	EUR	2008	1,225	2016	3 months Euribor + 2.20% + g)
ES Investment Plc	ESIP MAY2021 BBVA LINKED	a)	EUR	2008	4,092	2021	Indexed to BBVA
ES Investment Plc	ESIP AUG2012 EQL LINKED	a)	EUR	2008	6,769	2012	Indexed to BBVA
ES Investment Plc	ESIP DEC12 ENI LINKED	a)	EUR	2008	929	2012	Indexed to ENI
ES Investment Plc	ESIP DEC12 ENI LINKED 2	a)	EUR	2008	3,766	2012	Indexed to ENI
ES Investment Plc	ESIP MAY2012 EQL LINKED	a)	EUR	2008	5,914	2012	Indexed to BSCH
ES Investment Plc	ESIP JAN2012 EURBRL LINKED	a)	EUR	2009	1,947	2012	Indexed to FX

(in thousands of euro)

				31.12.2010			
Issuer	Designation		Currency	Issue Date	Book value	Maturity	Interest rate
ES Investment Plc	ESIP SX5E LINKED MARCH2011	a)	EUR	2009	872	2011	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP FIXED AMOUNT + AMORT NOV22	a)	EUR	2009	2,765	2022	Fixed Amounts
ES Investment Plc	ESIP EDP CLN EUR3M+2% MAR2011	a)	EUR	2009	1,483	2011	3 months Euribor +2% + g)
ES Investment Plc	ESIP EDP 2 CLN EUR3M+2% MAR2011	a)	EUR	2009	1,498	2011	3 months Euribor +2% + g)
ES Investment Plc	ESIP LACAIXA EUR3M+2% MAR2011	a)	EUR	2009	2,091	2016	3 months Euribor +2% + g)
ES Investment Plc	ESIP FIXED COUPON APRIL2011	a)	EUR	2009	108,096	2011	Fixed rate 4.384%
ES Investment Plc	ESIP MAY2014 5%+INDEX BASKET LKD	a)	EUR	2009	2,652	2014	Fixed rate 5% + z)
ES Investment Plc	ESIP MAY2012 SX5E LINKED	a)	EUR	2009	1,443	2012	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP JUN2013 EQL LINKED	a)	EUR	2009	202	2013	aa)
ES Investment Plc	ESIP JAN2011 SP500 LINKED	a)	EUR	2009	800	2011	Indexed to SP500
ES Investment Plc	ESIP JUN2011 CLN LINKED	a)	EUR	2009	2,923	2011	g)
ES Investment Plc	ESIP JUL2014 INFLATION LINKED	a)	EUR	2009	1,304	2014	Indexed to inflation
ES Investment Plc	ESIP JUL2013 EQL LINKED	a)	EUR	2009	1,492	2013	ab)
ES Investment Plc	ESIP SEP2011 BERKSHIRE HATHAWAY	a)	EUR	2009	2,008	2011	3 months Euribor +2% + g)
ES Investment Plc	ESIP AUG2012 BESI BRASIL LINKED	a)	EUR	2009	4,642	2012	ak)
ES Investment Plc	ESIP FEB2020 EQL LINKED	a)	EUR	2009	148	2020	ad)
ES Investment Plc	ESIP SEP2014 OCIDENTE II EQL	a)	EUR	2009	9,058	2014	ae)
ES Investment Plc	ESIP CLN 5.45% OCT2014	a)	EUR	2009	7,290	2014	g)
ES Investment Plc	ESIP OCT2014 EQL	a)	EUR	2009	1,425	2014	Indexed to Gazprom, Nokia and DU PONT
ES Investment Plc	ESIP OCT2012 EQL LINKED	a)	EUR	2009	1,918	2012	Indexed to Brisa, EDP, Galp, BSCH and BCP
ES Investment Plc	ESIP DEC2011 FTD LINKED	a)	EUR	2009	4,753	2011	g)
ES Investment Plc	ESIP 5.25% RANGE ACCRUAL OCT2016	a)	EUR	2009	4,605	2016	Range accrual
ES Investment Plc	ESIP CIMPOR CLN EUR3M DEC2014	a)	EUR	2009	4,211	2014	g)
ES Investment Plc	ESIP FTD IBERIA 5.95% DEC2014	a)	EUR	2009	12,372	2014	g)
ES Investment Plc	ESIP FTD IBERIA II 5.5% DEC2014	a)	EUR	2009	4,029	2014	g)
ES Investment Plc	ESIP USD FTD IBERIA 5.5% DEC2014	a)	USD	2009	3,048	2014	g)
ES Investment Plc	ESIP NOV2012 CLN BESIBRASIL	a)	EUR	2009	9,810	2012	g)
ES Investment Plc	ESIP DEC2012 USDBRL LINKED	a)	USD	2009	1,959	2012	Indexed to FH
ES Investment Plc	ESIP DEC2014 SX5E LINKED	a)	EUR	2009	3,281	2014	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP BRAZIL EQL LINKED	a)	EUR	2009	4,010	2014	al)
ES Investment Plc	ESIP DEC2012 EWZ+HSCEI LINKED	a)	EUR	2009	3,269	2012	Indexed to EWZ e HSCEI
ES Investment Plc	ESIP BRAZIL EQL JAN2015	a)	EUR	2010	1,532	2015	b)
ES Investment Plc	ESIP JAN2011 BASKET BRAZIL LKD	a)	EUR	2010	60	2011	c)
ES Investment Plc	ESIP BSKT MERC EMERG EQL FEB2014	a)	EUR	2010	5,118	2014	d)
ES Investment Plc	ESIP SX5E LINKED FEB2013	a)	EUR	2010	2,457	2013	Indexed to Eurostoxx
ES Investment Plc	ESIP FEB2011 SAN BNP BARC LINKED	a)	EUR	2010	315	2011	e)
ES Investment Plc	ESIP WORST SOFT CMDT MAR2013	a)	EUR	2010	1,396	2013	k)
ES Investment Plc	ESIP DJ US REAL EST LKD MAR2015	a)	EUR	2010	2,582	2015	indexed to Ishares DJ US Real State Index fund
ES Investment Plc	ESIP SOFT COMMODIT LKD APR2013	a)	EUR	2010	3,221	2013	o)
ES Investment Plc	ESIP AUTOCAL METAL CMDT MAR2015	a)	EUR	2010	3,214	2015	q)
ES Investment Plc	ESIP USDEUR FX LKD MAY2015	a)	EUR	2010	353	2015	indexed to EUR/USD
ES Investment Plc	ESIP EUR3M+25BP MAR11	a)	EUR	2010	53	2011	3 months Euribor +25Bps
ES Investment Plc	ESIP CRDAGRI CL EUR6M+1.15 JUN15	a)	EUR	2010	2,843	2015	6 months Euribor ACT/360
ES Investment Plc	ESIP BASKET LKD MAY2015	a)	EUR	2010	6,791	2015	r)
ES Investment Plc	ESIP EDP BCP PT LKD JUN2013	a)	EUR	2010	1,459	2013	w)
ES Investment Plc	ESIP FTD CRD LINKED JUN2015	a)	EUR	2010	5,338	2015	x)
ES Investment Plc	ESIP BRAZIL EQL MAY2016	a)	EUR	2010	3,078	2016	ac)
ES Investment Plc	ESIP SX5E MAY14 EQL	a)	EUR	2010	1,578	2014	Indexed to Eurostoxx
ES Investment Plc	ESIP JUN2013 BASKET LINKED	a)	EUR	2010	3,402	2013	5.70% + af)
ES Investment Plc	ESIP BASKET BRAZIL LKD MAY2011	a)	EUR	2010	877	2011	5% + c)
ES Investment Plc	ESIP BES RENDIM CRD LKD JUN2013	a)	EUR	2010	18,421	2013	ag)
ES Investment Plc	ESIP TELECOM LKD JUL2013	a)	EUR	2010	8,676	2013	ah)
ES Investment Plc	ESIP BASKET LKD JUL2013	a)	EUR	2010	4,090	2013	ai)
ES Investment Plc	ESIP BASKET LKD JUL2014	a)	EUR	2010	2,917	2014	ai)
ES Investment Plc	ESIP JUL2012 5%+BRAZIL INDEX LKD	a)	EUR	2010	2,332	2012	5% + Indexed to EWZ
ES Investment Plc	ESIP GOLD LKD FEB2012	a)	EUR	2010	982	2012	Indexed to Gold
ES Investment Plc	ESIP EUR12M DIGITAL AUG2011	a)	EUR	2010	1,488	2011	Digital Euribor 12M
ES Investment Plc	ESIP AUG13 RANGE ACCRUAL	a)	EUR	2010	2,410	2013	Range accrual
ES Investment Plc	ESIP AUG2013 EURUSD FX LINKED	a)	EUR	2010	1,853	2013	Indexed to FX
ES Investment Plc	ESIP SEP11 DIGITAL	a)	EUR	2010	2,229	2011	Digital Euribor 3M
ES Investment Plc	ESIP SEP2013 CURRENCIES LINKED	a)	EUR	2010	831	2013	ap)
ES Investment Plc	ESIP SEP15 DIGITAL	a)	USD	2010	1,064	2015	Digital US Libor 3M
ES Investment Plc	ESIP JAN2011 BBVA LKD	a)	EUR	2010	1,059	2011	Indexed to BBVA
ES Investment Plc	ESIP JAN2011 DOW JONES INDUS LKD	a)	EUR	2010	1,007	2013	Indexed to INDU
ES Investment Plc	ESIP MAR2012 TELECOM LKD	a)	EUR	2010	1,027	2012	Indexed to EWZ

(in thousands of euro)

31.12.2010							
Issuer	Designation		Currency	Issue Date	Book value	Maturity	Interest rate
ES Investment Plc	ESIP SEP2011 TELECOM LKD	a)	EUR	2010	982	2011	aq)
ES Investment Plc	ESIP ASIA INDEX LKD SEP2014	a)	EUR	2010	2,085	2014	ar)
ES Investment Plc	ESIP SEP2011 BRAZIL BASKET LKD	a)	EUR	2010	1,005	2011	c)
ES Investment Plc	ESIP EDP PT CGD CRDLKD DEC2013	a)	EUR	2010	6,042	2013	as)
ES Investment Plc	ESIP GOLD LKD OCT2013	a)	EUR	2010	857	2013	Indexed to Gold
ES Investment Plc	ESIP OCT2011 BASKET LINKED	a)	USD	2010	1,542	2011	at)
ES Investment Plc	ESIP EDP CRDLKD DEC2013	a)	EUR	2010	4,330	2013	Indexed to EDP
ES Investment Plc	ESIP NOV2013 SAN BBVA EQL LINKED	a)	EUR	2010	1,818	2013	Indexed toBSCH and BBVA
ES Investment Plc	ESIP NOV2013 SANTANDER LKD	a)	EUR	2010	943	2013	Indexed to BSCH
ES Investment Plc	ESIP SAN BBVA LINKED NOV2013	a)	EUR	2010	2,452	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP DEC2013 SAN BBVA EQL LINKED	a)	EUR	2010	923	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP MAY12 EURPLN LINKED	a)	EUR	2010	985	2012	Indexed to FX
ES Investment Plc	ESIP NOV2013 ASIA PACIF BSKT LKD	a)	EUR	2010	1,915	2013	au)
ES Investment Plc	ESIP NOV2013 AMERLATIN BSKT LKD	a)	EUR	2010	1,735	2013	av)
ES Investment Plc	ESIP MAY2012 EWZ LINKED	a)	EUR	2010	1,772	2012	Indexed to EWZ
ES Investment Plc	ESIP DEC2011 SANTANDER LINKED	a)	EUR	2010	953	2011	Indexed to BSCH
ES Investment Plc	ESIP JUN2011 BME LINKED	a)	EUR	2010	1,096	2011	Indexed to BME
BESIL	BESIL STEP UP 09/02/13		EUR	2003	1,990	2013	Fixed rate - 6.44%
BESIL	BESIL STEP UP 08/27/13		EUR	2003	6,328	2013	Fixed rate - 6%
BESIL	BESIL STEP UP 10/07/13		EUR	2003	1,876	2013	Fixed rate - 6.44%
BESIL	BESIL STEP UP 07/21/14		USD	2004	19,417	2014	Fixed rate - 6.06%
BESIL	BESIL STEP UP 02/11/19		USD	2004	19,882	2019	Fixed rate - 6.92%
Lusitano SME nº 1	Class A asset backed floating rate notes		EUR	2006	456,758	2028	Euribor + 0.15%
Lusitano SME nº 1	Class B asset backed guaranteed floating rate notes		EUR	2006	41,024	2028	Euribor + 0.05%
Lusitano SME nº 1	Class C asset backed floating rate notes		EUR	2006	34,196	2028	Euribor + 2.20%
Lusitano Mortgage nº 6	Class A Mortgage Backed Floating Rate Notes		EUR	2007	608,931	2060	Euribor + 0.20%
Lusitano Mortgage nº 6	Class B Mortgage Backed Floating Rate Notes		EUR	2007	6,504	2060	Euribor + 0.30%
Lusitano Mortgage nº 6	Class C Mortgage Backed Floating Rate Notes		EUR	2007	10,007	2060	Euribor + 0.45%
BESNAC	BOA SECURITIES LLC 252		USD	2010	37,416	2011	Fixed rate - 1.15%
BESNAC	BOA SECURITIES LLC 253		USD	2010	37,416	2011	Fixed rate - 1.15%
BESNAC	BOA SECURITIES LLC 255		USD	2010	37,414	2011	Fixed rate - 1.15%
BESNAC	BOA SECURITIES LLC 256		USD	2010	37,414	2011	Fixed rate - 1.15%
BESNAC	BOA SECURITIES LLC 257		USD	2010	37,414	2011	Fixed rate - 1.15%
BESNAC	BOA SECURITIES LLC 258		USD	2010	37,414	2011	Fixed rate - 1.15%
BESNAC	BOA SECURITIES LLC 259		USD	2010	37,414	2011	Fixed rate - 1.15%
BESNAC	BOA SECURITIES LLC 260		USD	2010	37,415	2011	Fixed rate- 1.18%
BESNAC	BOA SECURITIES LLC 261		USD	2010	37,409	2011	Fixed rate- 1.18%
BESNAC	BOA SECURITIES LLC 262		USD	2010	37,409	2011	Fixed rate- 1.18%
BESNAC	BOA SECURITIES LLC 263		USD	2010	37,369	2011	Fixed rate - 1.29%
BESNAC	BOA SECURITIES LLC 264		USD	2010	37,368	2011	Fixed rate - 1.29%
BESNAC	BOA SECURITIES LLC 265		USD	2010	37,368	2011	Fixed rate - 1.29%
BESNAC	BOA SECURITIES LLC 267		USD	2010	37,363	2011	Fixed rate - 1.35%
BESNAC	BOA SECURITIES LLC 268		USD	2010	37,363	2011	Fixed rate - 1.35%
BESNAC	BOA SECURITIES LLC 269		USD	2010	37,340	2011	Fixed rate - 1.48%
BESNAC	BOA SECURITIES LLC 270		USD	2010	37,340	2011	Fixed rate - 1.48%
ESPLC	BES1011_12E BESESPLC26/10/2011		EUR	2010	29,477	2011	Fixed rate 2.16%
ESPLC	BES0311_20E BESESPLC10/03/2011		EUR	2010	460,450	2011	Fixed rate 1.602%
ESPLC	BES0311_17E BESESPLC16/03/2011		EUR	2010	225,210	2011	Fixed rate 1.529%
ESPLC	BES0311_18E BESESPLC09/03/2011		EUR	2010	325,317	2011	Fixed rate 1.529%
ESPLC	BES0311_19E BESESPLC22/03/2011		EUR	2010	300,293	2011	Fixed rate 1.529%
ESPLC	BES1011_21E BESESPLC03/10/2011		EUR	2010	26,015	2011	Fixed rate 1.933%
ESPLC	BES0211_22E BESESPLC15/02/2011		EUR	2010	250,142	2011	Fixed rate 2.275%
CLNs	NAVIO 0 05/10/11		EUR	2001	10	2011	Fixed rate - 3.706%
CLNs	ATARI 0 02/14/11		EUR	2010	25,126	2011	Fixed rate - 1.158%
CLNs	ELAN 0 02/12/15		USD	2010	17	2015	Fixed rate - 0.416%
CLNs	SBFLTD 0 02/18/15		USD	2010	34	2015	Fixed rate - 0.614%
CLNs	SIGNUM 0 05/14/12		EUR	2010	22,684	2012	Fixed rate - 1.375%
CLNs	SIGNUM 0 05/21/12		EUR	2010	18,084	2012	Fixed rate - 1.319%
CLNs	ARLO 0 07/15/13		USD	2010	137	2013	Fixed rate - 1.032%
					24,109,939		

a) Liabilities at fair value through profit and loss or with embedded derivatives.
b) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Vale SA, Itau Unibanco and Banco Bradesco shares.
c) Indexed to a basket composed by Petroleo Brasileiro, Itau Unibanco, Companhia Vale Rio Doce shares.
d) Indexed to a basket composed by Ericsson, Komatsu, Santander, Sanofi-Aventis and ABB LTD shares.
e) Indexed to a basket composed by Banco Santander, BNP Paribas, Barclays Bank PLC shares.
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 e Nikkei 225 index.
k) Indexed to a basket of commodities composed by Corn, Wheat and Soybean.
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 of commodities composed by Corn, Wheat and Sugar.
p) Indexed to a basket composed by BBVA and BSCH shares.
q) Indexed to a basket of commodities composed by Copper, Nickel, Zinc and Platinum.
r) Indexed to a basket composed by Amazon, Apple, FedEx, UPS Inc shares.
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 Brasil 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 EDP, BCP and PT shares.
x) Indexed to credit risk (First to default) on Santander, PT INT FIN, EDP and Brisa 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 Petrobras, Gerdau, Vale, Itau Unibanco and Banco Bradesco shares.
ad) Indexed to a basket composed by France Telecom and Deutsche Telekom shares.
ae) Indexed to a basket composed by Eurostoxx, SP500, Nasdaq100 e iShare MSCI Brazil Fund baskets
af) Indexed to Brisa, EDP, PT and Credit Agricole loans.
ag) Indexed to PT, EDP and Brisa loans.
ah) Indexed to a basket composed by Telefonica, Deutsche Telecom and Vodafone shares.
ai) Indexed to a basket composed by Louis Vuitton, Nokia, Bayer and EON shares.
aj) Indexed to a basket composed by Eurostoxx50, SP500, Nasdaq100 and EWZ index.
ak) 1st year: Fixed rate, from 2nd year: 6 months Euribor + 150Bps, indexed to BESI Brazil.
al) Indexada a Cabaz de Acções Petrobras, Companhia Siderurgia Nacional, Itau Unibanco and Banco Bradesco.
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) Indexed to a basket composed by TOPIX, HANG SENG, HSCEI, NIFTY, KOSPI2 e MSCI Singapore index.
ap) Indexed to a currency basket composed by EUR/AUD, EUR/CAD, EUR/NZD, EUR/INR
aq) Indexed to a basket composed by Telefonica, Deutsche Telekom and Vodafone shares.
ar) Indexed to a basket composed by HSCEI, MSCI India, MSCI Taiwan and SP ASX200 index.
as) Indexed toEDP, PT and CGD loans.
at) Indexed to a basket composed by Dow Chemical, Monsanto, Whirlpool Corp shares.
au) Indexed to a basket composed by HSCEI, MSCI India, KOSPI200 and SP ASX500 index.
av) Indexed to a basket composed by MSCI Brasil, Chile e Mexico index.
aw) Indexed from 1st to 4th year to fixed rate 6,00% ; indexed to swap rate after 4th year.
ax) Fixed rate of 1.25% with option, at maturity, of the holders to obtain Bradesco shares instead of the principal remuneration.

NOTE 33 – Provisions

As at 31 December 2010 and 2009, the balance of provisions presents the following movements:

(in thousands of euro)

	Restructuring provision	Other provisions	Total
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**
Charge for the year	-	49,343	49,343
Charge off	(151)	(17,746)	(17,897)
Exchange differences and other	-	3,409	3,409
Balance as at 31 December 2010	**1,378**	**213,328**	**214,706**

Other provisions in the amount of euro 213,328 thousand (31 December 2009: euro 178,322 thousand) 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 62.0 million (31 December 2009: euro 56.4 million) 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 26.5 million as at 31 December 2010 (31 December 2009: euro 24.0 million) were established to cover these losses;
- Contingencies for ongoing tax processes. To cover these contingencies, the Group maintains provisions of approximately euro 39.8 million (31 December 2009: euro 60.8 million);
- Contingencies for ongoing processes regarding commercial operations performed abroad in the amount of euro 37.4 million;
- The remaining balance of approximately euro 47.6 million (31 December 2009: euro 37.1 million), 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 year ended 31 December 2009 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 current and deferred tax for the year ended 31 December 2010 was determined based on a tax rate of 26.5% plus an additional tax of 2.5% added following Decree-law nr 12-A of 30 June, in the scope of the additional measures of the stability and growth programme (PEC). This tax rate was enacted, or substantially enacted, at the balance sheet date.

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 2010 and 2009 can be analysed as follows:

(in thousands of euro)

	Assets		Liabilities		Net	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Financial instruments	61,328	43,227	(111,202)	(166,718)	(49,874)	(123,491)
Loans and advances to customers	252,580	212,717	-	-	252,580	212,717
Property and equipment	-	-	(9,239)	(11,498)	(9,239)	(11,498)
Intangible assets	102	111	-	-	102	111
Investments in subsidiaries and associates	3,821	31,583	(73,204)	(31,587)	(69,383)	(4)
Provisions	33,646	29,890	-	(119)	33,646	29,771
Pensions	26,985	23,257	(43,819)	(43,772)	(16,834)	(20,515)
Health care - SAMS	202	30,282	-	-	202	30,282
Long-term service benefits	8,152	7,267	-	-	8,152	7,267
Debt securities issued	-	-	(27,814)	(24,226)	(27,814)	(24,226)
Other	5,748	8,737	(7,177)	(5,813)	(1,429)	2,924
Tax losses brought forward	47,598	5,317	-	-	47,598	5,317
Deferred tax asset / (liability)	**440,162**	**392,388**	**(272,455)**	**(283,733)**	**167,707**	**108,655**
Assets / liabilities compensation for deferred taxes	(156,795)	(204,517)	156,795	204,517	-	-
Deferred tax asset / (liability), net	**283,367**	**187,871**	**(115,660**	**(79,216)**	**167,707**	**108,655**

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. In relation to other subsidiaries, the Group recognises deferred tax liabilities.

Additionally, 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	Tax losses brought forward	
	31.12.2010	31.12.2009
2009	-	8,760
2010	9,598	9,598
2011	6,235	6,235
2012	1,155	1,155
2013	826	826
2014	5,329	15,492
	23,143	**42,066**

The changes in deferred taxes were recognised as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	108,655	104,305
Recognised in the income statement	15,899	68,862
Recognised in fair value reserve (1)	47,885	(84,440)
Recognised in other reserves	(2,723)	18,970
Exchange differences and other	(2,009)	958
Balance at the end of the year (Assets/ (Liabilities))	**167,707**	**108,655**

(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 16,902 thousands (gains) (31 December 2009: euro 12,545 thousands - costs).

The deferred tax recognised in the income statement and reserves, during 2010 and 2009, is analysed as follows:

(in thousands of euro)

	31.12.2010		31.12.2009	
	Recognised in (profit) /loss	**Recognised in reserves**	**Recognised in (profit) /loss**	**Recognised in reserves**
Financial Instruments	(25,732)	(47,885)	153	84,440
Loans and advances to customers	(39,863)	-	(63,105)	-
Property and equipment	(2,259)	-	568	-
Intangible assets	9	-	47	-
Investments in subsidiaries and associates	66,362	3,017	(8,112)	(13,767)
Provisions	(3,875)	-	(11,312)	-
Pensions	(1,852)	(1,829)	(4,097)	(1,671)
Health care - SAMS	30,080	-	(3,106)	-
Long-term service benefits	(885)	-	(302)	-
Debt securities issued	3,588	-	16,822	-
Other	809	1,535	2,582	(3,532)
Tax losses brought forward	(42,281)	-	1,000	-
Deferred taxes	(15,899)	(45,162)	(68,862)	65,470
Current taxes	59,673	46	178,681	944
Total	**43,774**	**(45,116)**	**109,819**	**66,414**

The current tax recognised in reserves includes a tax gain of euro 1,933 thousand related to costs incurred in the capital increase (31 December 2009: euro 823 thousand), a cost of euro 1,829 thousand related to retirement pensions (31 December 2009: euro 1,671 thousand) and euro 150 thousand related to the share based payments scheme (31 December 2009: euro 96 thousand).

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

(in thousands of euro)

	31.12.2010		31.12.2009	
	%	**Value**	**%**	**Value**
Profit before taxes and minority interests		**700,765**		**684,911**
Statutory tax rate	29.0		26.5	
Income tax calculated based on the statutory tax rate		203,222		181,501
Tax-exempt dividends	(6.1)	(42,951)	(2.2)	(14,864)
Tax-exempt profits (off shore)	(8.2)	(57,503)	(8.0)	(54,791)
Tax-exempt gains	(11.5)	(80,543)	(3.9)	(26,593)
Non-taxable share of profit in associates	(1.5)	(10,781)	(1.2)	(7,944)
Non deductible costs	4.8	33,563	4.5	31,118
Changes in tax-rate related to deferred taxes	(2.4)	(17,000)	-	-
Non-recoverable taxes paid abroad	1.2	8,739	-	-
Effect of deferred tax asset calculated on losses brought forward considering a 25% rate	1.0	6,759	-	-
Other	(0.1)	269	0.2	1,392
	6.2	**43,774**	**16.0**	**109,819**

NOTE 35 – Subordinated Debt

The balance subordinated debt is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Bonds	1,246,324	1,589,331
Loans	276,936	222,645
Perpetual Bonds	768,573	827,095
	2,291,833	**2,639,071**

The main features of the subordinated debt are presented as follows:

(in thousands of euro)

Issuer	Designation	Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity
		31.12.2010					
BES (Cayman Branch)	Subordinated loans	JPY	2005	213,068	276,936	3.95%	2015
BES Finance	Bonds	EUR	2001	400,000	400,726	6.25%	2011
BES Finance	Subordinated perpetual bonds	EUR	2002	500,000	489,768	6.63%	2012 a)
BES Finance	Subordinated perpetual bonds	EUR	2004	500,000	278,805	4.50%	2015 a)
BES Finance	Bonds	EUR	2008	20,000	20,041	3 months Euribor + 1%	2018
BESI	Bonds	BRL	2008	1,683	2,323	1.30%	2013
BESI	Bonds	BRL	2007	21,134	24,834	1.30%	2014
BESI	Bonds	BRL	2008	10,099	14,055	1.30%	2015
BESI	Bonds	EUR	2005	60,000	46,265	5.33%	2015
BESI	Bonds	EUR	2003	10,000	9,990	5.50%	2033
BES	Bonds	EUR	2001	7,000	1	6 months Euribor + 1.25%	2011
BES	Bonds	EUR	2004	25,000	22,631	6 months Euribor + 1.25%	2014
BES	Subordinated perpetual bonds	EUR	2005	15,000	-	3 months Euribor + 2.25%	2015 a)
BES	Bonds	EUR	2008	41,550	16,776	3 months Euribor + 1%	2018
BES	Bonds	EUR	2008	638,450	638,611	3 months Euribor + 1%	2019
BES	Bonds	EUR	2008	50,000	50,071	3 months Euribor + 1.05%	2018
				2,512,984	2,291,833		

a) Call option date.

Changes in subordinated debt are analysed as follows:

(in thousands of euro)

	Balance as at 31.12.2009	Issues	Repayments	Net Repurchases	Other movements (a)	Balance as at 31.12.2010
Bonds	1,589,331	-	(300,000)	(2,914)	(40,093)	1,246,324
Loans	222,645	80,000	(80,000)	-	54,291	276,936
Perpetual Bonds (b)	827,095	4,279	-	(57,157)	(5,644)	768,573
	2,639,071	84,279	(380,000)	(60,071)	8,554	2,291,833

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 2010 and in 2009, the Group has recognised a gain in the amount of euro 3.2 million and euro 110.5 million, respectively (see Note 10).

NOTE 36 – Other Liabilities

As at 31 December 2010 and 2009, the balance other liabilities is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Creditors		
Public sector	127,583	44,630
Creditors arising out from future contracts	25,500	28,197
Deposit accounts	107,625	120,886
Sundry creditors		
Creditors from transactions with securities	107,486	119,978
Suppliers	68,241	82,000
Creditors from factoring operations	4,304	3,670
Other sundry creditors	265,496	222,167
	706,235	621,528
Accrued expenses		
Long-term service benefits (see Note 12)	29,655	28,602
Other accrued expenses	171,463	143,187
	201,118	171,789
Deferred income	**23,033**	**32,978**
Other sundry liabilities		
Stock exchange transactions pending settlement	714,013	226,014
Foreign exchange transactions pending settlement	2,095	73,608
Other transactions pending settlement	288,229	103,834
	1,004,337	403,456
	1,934,723	1,229,751

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 2010, the Bank's share capital in the amount of euro 3 500 million, was represented by 1 166 666 666 ordinary shares with a nominal value of euro 3 each, which were subscribed and fully paid by the following entities:

	% Share capital	
	31.12.2010	31.12.2009
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)	6.05%	6.05%
Slichester International Investors Limited	5.41%	-
Portugal Telecom, SGPS, SA	2.62%	-
Espírito Santo Financial Group, S.A.	2.47%	1.65%
Pensions Fund of associates of Portugal Telecom (2)	-	2.62%
Other	32.64%	38.87%
	100.00%	100.00%

(1) Portuguese Law company wholly owned by Banco Bradesco (Brazil), to which are attributable the voting rights.
(2) This funds are managed by Previsão - Soc. Gestora de Fundos de Pensões, S.A.. The entity's voting rights are attributable to Portugal Telecom.

In April 2009, the Bank did a capital increase, in a process comprising three phases:

1st phase - reduction of the Bank share capital from euro 2,500 million to euro 500 million, through the reduction of the nominal value of all of the 500 million 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 million;
2nd phase - capital increase in the amount of euro 1,200 million 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 - new capital increase in the amount of euro 2,333 million, by incorporation of reserves (including the special reserve of euro 2,000 million, 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 thousand, 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 thousand non-voting preference shares in July 2003, which are listed in the Luxembourg stock Exchange through BES Finance. In March 2004, 150 thousand preference shares were additionally issued forming a single series with the existing preference shares, in a total amount of euro 600 million. 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 2010, the Group charged against reserves the amount of euro 33,480 thousand (31 December 2009: euro 33,480 thousand) related to the dividends declared by the Board of Directors of the issuer, as at 13 May 2010, which were paid as at 2 July 2010.

These shares rank lower than any BES liability, and pari passu relative to any preference shares that may be issued by the Bank.

Share Premiums

As at 31 December 2010, share premiums total euro 1,085,398 thousand related to the premium paid by the shareholders following the share capital increases.

Other equity instruments

The Group issued during December 2010, perpetual subordinated bonds with interest conditioned in a total amount of euro 320 million. Of that amount, euro 50 million were issued by the subsidiary BES Investimento, which are recorded on the balance sheet under Non-controlling interests.

These bonds have an interest conditioned non-cumulative, payable only if and when declared by the Board of Directors. This conditioned interest corresponds to the application of an annual rate of 8.5% over the nominal value, payable semiannually. The reimbursement of these securities may be made in full, but not partially, after 15 September 2015, depending only on BES option, with prior approval of Bank of Portugal. Given their characteristics, these obligations are considered as equity instruments in accordance with the accounting policy described in Note 2.9.

These bonds are subordinated in respect of any liability of BES and pari passu in respect of any subordinated bonds with identical characteristics that may be issued by the Bank.

Treasury stock

The Bank's General Meeting of 20 June 2000 approved a stock-based incentive scheme, SIBA (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, for an overall amount of euro 25.1 million. These shares are recognised as treasury stock, as described in Note 2.15. In 29 December 2010, the last block of SIBA matured thus ceasing the application of this program, so that by 31 December 2010 there was no value assigned to own shares.

The movement in treasury stocks is analysed as follows:

	31.12.2010		31.12.2009	
	Number of shares	Amount (thousands of euro)	Number of shares	Amount (thousands of euro)
Opening balance	1,276,261	25,083	2,479,081	29,838
Shares sold (1)	(1,276,261)	(2,952)	-	-
Net amount of transactions with SIBA shares (2)	-	(22,131)	(1,202,820)	(4,755)
Period-end balance	**-**	**-**	**1,276,261**	**25,083**

(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.
(2) Amount transfered to Other reserves in 2010.

NOTE 38 – Fair Value Reserve, Other Reserves And Retained Earnings and Non-Controlling Interests

Legal Reserve

The legal reserve can only be used to absorb accumulated losses or to increase 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 non-controlling interests.

During the years ended 31 December 2010 and 2009, 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 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	0	300,628	322,628
Balance as at 31 December 2009	**365,323**	**(64,490)**	**300,833**	**22,000**	**(5,634)**	**655,697**	**672,063**
Share-based incentive plan (SIBA)	-	-	-	-	-	366	366
Settlement of Share-based incentive plan (SIBA)						-	(22,131)
Dividends from preference shares	-	-	-	-	-	(33,480)	(33,480)
Changes in fair value	(376,614)	66,201	(310,413)	-	-	-	-
Other movements	-	-	-	-	-	(3,321)	(3,321)
Exchange differences	-	-	-	-	6,114	-	6,114
Transfer to reserves	-	-	-	37,000	-	321,936	358,936
Balance as at 31 December 2010	**(11,291)**	**1,711**	**(9,580)**	**59,000**	**480**	**919,067**	**978,547**

The fair value reserve is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Amortised cost of available-for-sale financial assets	11,859,592	8,280,675
Accumulated impairment losses recognised	(159,232)	(137,890)
Amortised cost of available-for-sale financial assets, net of impairment	**11,700,360**	**8,142,785**
Fair value of available-for-sale financial assets	11,774,881	8,531,600
Net unrealised gains recognised in the fair value reserve	**74,521**	**388,815**
Fair value reserves related to securities reclassified as held-to-maturity investments (Note 22)	(13,694)	(19,560)
Deferred taxes	(17,001)	(64,549)
Fair value reserve of associates appropriated on consolidation	(54,733)	(5,841)
Net fair value reserve	**(10,907)**	**298,865**
Minority interests	1,327	1,968
Fair value reserve attributable to equity holders of the Bank	**(9,580)**	**300,833**

The movement in the fair value reserve, net of deferred taxes, impairment losses and non-controlling interests is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	**300,833**	**(266,334)**
Changes in fair value	(41,980)	824,231
Disposals during the year	(364,436)	(189,239)
Impairment recognised during the year	29,802	28,869
Deferred taxes recognised in reserves during the year	66,201	(96,694)
Balance at the end of the year	**(9,580)**	**300,833**

Non-controlling Interests

Non-controlling interests by subsidiary are analysed as follows:

(in thousands of euro)

	31.12.2010		31.12.2009	
	Balance sheet	Income statement	Balance sheet	Income statement
BES ANGOLA	256,969	120,599	133,245	39,958
BESI [a]	50,000	-	-	-
AMAN BANK	36,620	(835)	-	-
ES CONCESSÕES	35,094	17,827	19,372	1,170
FCR VENTURES II	23,903	(1,022)	23,269	(931)
BES Securities	22,681	3,096	19,613	4,021
BES Investimento do Brasil	19,414	355	16,521	2,747
ESAF	18,109	3,414	16,798	2,959
BES AÇORES	15,930	1,128	15,402	1,792
FCR PME/BES	15,105	164	11,323	217
Espirito Santo Investment Holding [b]	12,085	11	-	-
BEST	11,689	2,189	9,502	1,504
FCR VENTURES III	8,533	(1,063)	1,726	(919)
OTHER	15,278	608	16,786	460
	541,410	**146,471**	**283,557**	**52,978**

a) Corresponds to the emission of other equity instruments (see Note 37).
b) Holding company of BESI Group that holds a 50.1% participation in Execution Holdings, Limited

The movements in non-controlling interests in the years ended 31 December 2010 and 2009 are analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Non-controlling interests at the beginning of the year	**283,557**	**153,509**
Changes in the scope of consolidation	45,285	33,534
Increase in share capital of subsidiaries	17,325	51,415
Other equity instruments issue.	50,000	-
Dividends paid	(6,461)	(4,632)
Changes in fair value reserve	(4,969)	1,687
Exchange differences and other	10,202	(4,934)
Profit for the year	146,471	52,978
Non-controlling interests at the end of the year	**541,410**	**283,557**

NOTE 39 – Off-Balance Sheet Items

As at 31 December 2010 and 2009, this balance can be analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Contingent liabilities		
Guarantees and stand by letters of credit	8,198,285	6,983,166
Assets pledged as collateral	8,320,999	3,789,253
Open documentary credits	3,239,192	3,016,076
Other	581,957	158,296
	20,340,433	**13,946,791**
Commitments		
Revocable commitments	6,883,602	8,612,423
Irrevocable commitments	5,349,361	5,338,345
	12,232,963	**13,950,768**

As at 31 December 2010, 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 155.3 million (31 December 2009: euro 151.8 million) and (ii) in the scope of a liquidity facility collateralised by securities in the amount of euro 7,419 million (as at 31 December 2010, securities eligible for rediscount at the Bank of Portugal amounted to euro 10,823 million);

- 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 24,241 thousand (31 December 2009: euro 19,368 thousand);

- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 63,173 thousand (31 December 2009: euro 61,847 thousand);

- Securities pledged as collateral to the European Investment Bank in the amount of euro 594,500 thousand (31 December 2009: euro 522,500 thousand).

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)

	31.12.2010	31.12.2009
Securities and other items held for safekeeping on behalf of customers	69,177,215	72,080,912
Assets for collection on behalf of clients	274,553	286,509
Securitised loans under management (servicing)	3,107,186	3,426,539
Other responsibilities related with banking services	9,757,863	7,974,169
	82,316,817	**83,768,129**

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 2010 and 2009, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Securities investment funds	4,459,631	5,530,986
Real estate investment funds	1,374,539	1,263,209
Pension funds	2,655,602	2,721,960
Bancassurance	5,373,789	5,511,442
Portfolio management	1,785,790	2,560,866
Other	1,445,009	1,533,897
	17,094,360	19,122,360

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:

BES Group Associates companies

Company

Rua Bonita Sp. Z.o.o.
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
Synergy Industry and Technology, S.A.
Salgar Investments
SO PESO Restauração e Hotelaria, SA
2BCapital, SA
Apolo Films SL
Brb Internacional, S.A.
Prosport, SA
Banque Espirito Santo et de la Vénétie, SA
PT Prime Tradecom - Soluções Empresariais de Comércio Externo, S.A.
E.S. Contact Center - Gestão de Call Centers, SA
Esiam - Espirito Santo International Asset Management, Ltd
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
Ascendi Group, SGPS, SA
Empark Aparcamientos y Servicios SA
Concesionaria Autopista Perote-Xalapa, CV
Autovia De Los Vinedos, SA
MRN - Manutenção de Rodovias Nacionais, SA
Portvias - Portagem de Vias, SA
Scutvias - Autoestradas da Beira Interior , SA
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
Nutrigreen, S.A.
Advance Ciclone Systems, SA
MMCI - Multimédia, SA
Mobile World - Comunicações, SA
Sopratutto Café , SA
Enkrott SA
Rodi Sinks & Ideas, SA
Palexpo - Imagem Empresarial, SA
Nova Figfort - Têxteis, Lda
TLCI 2 - Soluções Integradas de Telecomunicações, SA
BANCO DELLE TRE VENEZIE SPA
NANIUM , SA
Ascendi Pinhal Interior Estradas do Pinhal Interior, SA
Aenor Douro Estradas do Douro Interior, SA
Unicre - Cartão Internacional de Crédito, SA

ESFG´s subsidiaries, associates and related entities

Company

Bespar - Sociedade Gestora de Participações Sociais, SA
Banque Privée Espírito Santo
Banque Privée Espírito Santo Sucursal Portugal
ES Bank (Panama), SA
ES Bankers (Dubai) Limited
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 Apoio 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
T - Vida, Companhia de Seguros, SA
Companhia de Seguros Tranquilidade, SA
Group Credit Agricole
Saxo Bank
The Atlantic Company (Portugal) - Turismo e Urbanização, SA
Advancecare - Gestão e Serviços de Saúde, SA
Agribahia, S/A
Atr - Actividades Turisticas e Representações, Lda
Aveiro Incorporated
Beach Heath Investments, Ltd
Companhia Agricola Botucatu, SA
Casas da Cidade - Residências Sénior, SA
Cerca da Aldeia - Sociedade Imobiliária, SA
Cimenta - Empreendimentos Imobiliários, SA
Cidadeplatina - Construção SA
Clarendon Properties, Inc.
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
E.S.B. Finance Ltd
Eastelco - Consultoria e Comunicação, SA
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
Escae Consultoria, Administração e Empreendimento, Ltda
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.
Fafer - Empreendimentos Turisticos e de Construção, SA
Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, SA
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
HDC - Serviços de Turismo e Imobiliário, SA
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
Luzboa, SA
Luzboa Um, SA
Luzboa Dois, SA
Luzboa Três, SA
Luzboa Quatro, SA
BEMS, SGPS, SA
Margrimar - Mármores e Granitos, SA
Marinoteis - Sociedade de Promoção e Construção de Hoteis, SA
Marmetal - Mármores e Materiais de Construção, SA
Metal - Lobos Serralharia e Carpintaria, Lda
Moldebetão - Sociedade de Betões, SA
Multiger - Sociedade de Gestão e Investimento Imobiliário, SA
Mundo Vip - Operadores Turísticos, SA
Net Viagens - Agência de Viagens e Turismo, SA
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.
Pavicentro - Pré-Fabricação, SA
Pavilis - Pré-Fabricação, SA
Paviseu - Materiais Pré-Fabricados, SA
Pavitel, SARL
Personda - Sociedade de Perfurações e Sondagens, SA
Placon - Estudos e Projectos de Construção, Lda
Pojuca, SA
Pontave - Construções, SA
Agência Receptivo Praia do Forte, Ltda
Praia do Forte Operadora de Turismo, Ltda
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
Santa Mónica - Empreendimentos Turísticos, SA
Saramagos S/A Empreendimentos e Participações
Société Congolaise de Construction et Travaux Publiques, SARL
Series - Serviços Imobiliários Espirito Santo, SA
Sociedade Gestora do Hospital de Loures, SA
Sintra Empreendimentos Imobiliários, Ltda
Sisges, SA Desenvolvimento de Projectos de Energia
Soguest - Sociedade Imobiliária, SA
Solférias - Operadores Turísticos, Lda
Sopol - Concessões, SGPS, SA
Sotal - Sociedade de Gestão Hoteleira, S.A.
Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, SA
Suliglor - Imobiliária do Sul, SA
TA DMC Brasil - Viagens e Turismo, SA
Agência de Viagens Tagus, S.A.
Construtora do Tamega Madeira SA
Construtora do Tamega Madeira SGPS SA
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
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.
Diliva, Sociedade de Investimentos Imobiliários, S.A.

As at 31 December 2010 and 2009, the balances and transactions with related parties are presented as follows:

(in thousands of euro)

	31.12.2010					31.12.2009				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associates companies										
BES VIDA	924,511	429,055	-	48,770	1,094	163,654	212,800	-	69,271	10,515
BES VÉNÉTIE	889,175	120,264	832	8,967	345	413,556	84,733	252	10,977	44
ASCENDI GROUP SGPS	188,684	5,348	-	9,583	2,001	-	-	-	-	-
LOCARENT	139,970	712	-	3,303	10,177	141,500	341	-	5,584	9,228
AENOR DOURO	122,304	592	-	5,013	-	-	-	-	-	-
NANIUM	45,403	704	-	610	-	-	-	-	-	-
EMPARK	41,537	-	-	3,286	-	48,267	-	-	1,064	-
SOUSACAMP	15,064	7	3,013	835	-	20,000	109	-	116	-
ASCENDI PINHAL INTERIOR	9,320	17,769	-	256	19	-	-	-	-	-
SCUTVIAS	9,140	-	-	227	-	-	-	-	-	-
PALEXPO	6,800	189	-	353	1	-	-	-	-	-
BES SEGUROS	3,840	13,773	-	1,413	4	28	13,337	-	103	19
ESEGUR	2,657	138	2,261	842	126	1,750	316	2,303	66	116
ESUMÉDICA	2,569	-	4	83	55	2,507	-	4	58	35
ES CONTACT CENTER	1,614	-	92	60	915	1,726	-	74	52	-
EUROP ASSISTANCE	1,064	1,670	7	43	12	1,128	1,289	7	36	10
FIDUPRIVATE	139	7	-	-	-	136	10	-	-	-
UNICRE	12	16,695	-	-	1	-	-	-	-	-
ASCENDI *	-	-	-	-	-	29,203	146	-	-	-
ASCENDI CP *	-	-	-	49	180	3,877	46,948	-	86	24
ASCENDI BLA *	-	-	-	148	-	9,143	23,902	-	204	144
ASCENDI GP *	-	-	-	102	361	6,914	20,636	-	171	67
OTHERS	16,139	11,810	-	813	1,456	9,162	6,065	-	77	143
	2,419,942	**618,733**	**6,209**	**84,756**	**16,747**	**852,551**	**410,632**	**2,640**	**87,865**	**20,345**

*Participations transferred to Ascendi Group SGPS at the end of 2010 (see Note 1).

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. The liabilities relate mainly to bank deposits taken.

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. From the evaluation performed with reference to 31 December 2010, it was identified and recognized a responsibility to BES VIDA in the amount of euro 6.8 million, being that, at 31 December 2009, no responsibility was identified.

As at 31 December 2010 and 2009, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euro)

	31.12.2010								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
ES FINANCIAL GROUP	-	-	136	2	138	-	91,342	241	-
ESF PORTUGAL	-	1	93,810	-	93,811	-	154	945	-
BESPAR	-	-	-	-	-	-	479	-	-
GRUPO CRÉDIT AGRICOLE	973	-	-	6,866	7,839	-	549	-	-
PARTRAN	-	-	-	-	-	-	40	-	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	135,000	-	-	135,000	-	74	-	-
COMPANHIA SEGUROS TRANQUILIDADE	-	2,667	3	424	3,094	21,563	68,267	1,146	1,344
ES IRMÃOS	-	87,948	-	-	87,948	-	1	2,469	-
ESCOM	-	-	-	-	-	-	-	6,645	-
BANQUE PRIVÉE ESPÍRITO SANTO	23,989	-	-	13	24,002	10,623	27,629	270	101
ES BANK PANAMA	311,074	-	-	-	311,074	-	2,930	8,093	44
ES SAUDE	-	118,944	12,544	32	131,520	24,885	5,308	232	1
OPWAY	-	31,606	0	-	31,606	35,665	8,998	713	-
T - VIDA	-	20	190,281	205	190,506	-	97,471	173	108
CONSTRUCCIONES SARRION	-	26,934	-	-	26,934	-	-	-	-
ESPÍRITO SANTO RESOURCES	-	-	-	31	31	-	186	91	1
OTHER	23,766	77,724	2,592	846	104,928	12,370	28,016	6,582	898
TOTAL	**359,802**	**480,844**	**299,366**	**8,419**	**1,148,431**	**105,106**	**331,444**	**27,600**	**2,497**

(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	-	0	0	-	-	-	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
OTHER	-	48,022	1,219	370	31,637	7,175	15,143	973	283
TOTAL	**57,055**	**690,405**	**157,159**	**19,360**	**906,005**	**59,578**	**1,011,588**	**16,655**	**2,728**

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 2010, 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 5,924 thousand (31 December 2009: euro 5,698 thousand).

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 Commercial Companies Code. 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 General Law of Credit Institutions and Financial Companies (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 2010 and 2009, 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 2010 and 2009 there were no transactions made with the Group pensions funds.

NOTE 42 – Securitisation Transactions

As at 31 December 2010, 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	431,681	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	430,415	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	610,478	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	689,254	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1,400,000	945,359	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862,607	573,348	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1,100,000	838,428	Mortgage loans (general regime)
Lusitano Project Finance No.1 plc	December 2007	1,079,100	780,100	Project Finance loans
Lusitano Mortgages No.7 plc	September 2008	1,900,000	1,890,428	Mortgage loans (general regime)
Lusitano Leverage finance No. 1 BV	February 2010	516,534	418,031	Leverage Finance Loans
Lusitano SME No.2	December 2010	1,951,908	1,727,710	Loans to small and medium entities

(1) Includes euro 888 600 thousand related to credit from BES and euro 190 500 thousand related to credit from other entities of BES Group (initial amounts).
(2) Includes euro 382 062 thousands related to credit from BES, euro 67 205 thousand related to credit from BESI and euro 108 040 thousand related to credit from ES Vénétie.
(3) Includes euro 1 348 825 thousand related to corporate credit and euro 603 083 thousand related to commercial paper issues from BES.

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 restarted 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 Nr.6 plc, Lusitano Mortgages Nr.7 plc, Lusitano Leverage Finance Nr.1 BV, Lusitano SME Nr.2 and Lusitano Project Finance Nr.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 2010, can be analysed as follows:

(in thousands of euro)

Designation	Notes issued	Issued amount (par value)	Current amount (par value)	Securities held by BES (par value)	Maturity date	Ratings (initial)				Ratings (actual)			
						Fitch	***Moody's***	***S&P***	**DBRS**	***Fitch***	***Moody's***	***S&P***	**DBRS**
Lusitano Mortgages No.1 plc	Class A	915,000	332,905	109	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	A	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	351,047	5,380	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	552,490	4,556	December 2047	AAA	Aaa	AAA	-	AAA	Aaa	AAA	-
	Class B	27,000	20,725	-	December 2047	AA	Aa2	AA	-	AA	Aa2	AA	-
	Class C	18,600	14,277	-	December 2047	A	A2	A	-	A	Baa1	A	-
	Class D	14,400	11,053	-	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	616,259	8,957	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	878,694	664	December 2059	AAA	Aaa	AAA	-	AAA	Aaa	AAA	-
	Class B	26,600	25,494	-	December 2059	AA	Aa2	AA	-	AA	A2	AA	-
	Class C	22,400	21,469	-	December 2059	A	A1	A	-	A	Baa2	A	-
	Class D	28,000	26,836	5,271	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	473,181	17,026	December 2028	AAA	-	AAA	-	BBB	-	AAA	-
	Class B	40,974	40,974	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34,073	34,073	-	December 2028	BB	-	BB	-	B	-	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	664,181	55,592	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	712,450	703,081	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	76,473	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	-	-	-	-	-	-	-	-
Lusitano Leverage finance No. 1 BV	Class A	352,000	297,669	247,305	January 2020	-	-	AAA		-	-	AAA	
	Class C	206,800	206,800	175,956	January 2020	-	-	-		-	-	-	
	Class X	21,850	21,850	20,633	January 2020	-	-	-		-	-	-	
Lusitano SME No.2	Class A	1,107,300	1,107,300	1,107,300	August 2033	-	Aaa	-	AAA	-	Aaa	-	AAA
	Class B	369,100	369,100	369,100	August 2033	-	A2	-	A (low)	-	A2	-	A (low)
	Class C	466,300	466,300	466,300	August 2033	-	-	-	-	-	-	-	-
	Class D	38,900	38,900	38,900	August 2033	-	-	-	-	-	-	-	-

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)

	Amortised Cost	Fair Value: Quoted Market Prices	Fair Value: Valuation models based on observable market information	Fair Value: Valuation models based on non-observable market information	Book Value	Fair Value
Balance as at 31 December 2010						
Cash and deposits at central banks	930,505	-	-	-	930,505	930,505
Deposits with banks	557,972	-	-	-	557,972	557,972
Other financial assets held for trading	-	1,741,040	2,201,021	-	3,942,061	3,942,061
Financial assets at fair value through profit or loss	-	66,661	1,347,273	10,397	1,424,331	1,424,331
Available-for-sale financial assets	21,436	5,594,388	5,956,020	203,037	11,774,881	11,774,881
Loans and advances to banks	4,245,436	-	-	-	4,245,436	4,245,436
Loans and advances to customers	49,426,668	-	1,402,455	-	50,829,123	48,932,520
Held-to-maturity investments	2,458,800	-	-	-	2,458,800	2,392,233
Derivatives for risk management purposes	-	-	447,304	-	447,304	447,304
Financial assets	**57,640,817**	**7,402,089**	**11,354,073**	**213,434**	**76,610,413**	**74,647,243**
Deposits from central banks	7,964,820	-	-	-	7,964,820	7,964,820
Financial liabilities held for trading	-	-	2,088,007	-	2,088,007	2,088,007
Deposits from banks	5,692,681	-	687,911	-	6,380,592	5,842,853
Due to customers	26,619,933	-	4,199,287	-	30,819,220	30,819,220
Debt securities issued	19,629,407	-	4,480,532	-	24,109,939	21,584,479
Derivatives for risk management purposes	-	-	228,944	-	228,944	228,944
Subordinated debt	2,015,631	-	276,202	-	2,291,833	1,491,096
Financial liabilities	**61,922,472**	**-**	**11,960,883**	**-**	**73,883,355**	**70,019,419**
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	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	47,510,965	-	1,467,882	-	48,978,847	48,169,548
Held-to-maturity investments	2,541,829	-	-	-	2,541,829	2,455,350
Derivatives for risk management purposes (assets)	-	-	455,115	-	455,115	455,115
Financial assets	**60,101,290**	**5,715,818**	**10,797,104**	**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 (liabilities)	0	-	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**

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:

Market Quote - this category includes financial assets with available market quote in official markets and with dealer prices quotes 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 quotes 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 quotes provided by third parties but which imply the use of non-observable market information.

During 2010, there was 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 2010, can be analysed as follows:

(in thousands of euro)

Balance at the beggining of the year	155,662
Acquisitions	110,683
Disposals [a)]	(49,123)
Changes in value	(3,788)
Balance at the end of the year	**213,434**

The main assumptions and inputs used during the years ended 2010 and 2009 in the valuation models are presented as follows:

Interest rate curve

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

(%)

	31.12.2010			**31.12.2009**		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	0.4500	0.3000	0.5800	0.2500	0.0750	0.3700
1 month	0.7820	0.2606	0.6800	0.4000	0.4200	0.5800
3 months	1.0060	0.3028	0.8200	0.5000	0.4700	0.6600
6 months	1.2270	0.4559	1.2600	0.9300	0.6800	0.9300
9 months	1.3720	0.6200	1.4150	1.0900	0.9000	1.0300
1 year	1.3320	0.4590	0.8910	1.3155	0.6480	0.9960
3 years	1.9450	1.3030	1.9480	2.2700	2.0120	2.6560
5 years	2.4810	2.1980	2.6180	2.8050	2.9300	3.3900
7 years	2.8930	2.8390	3.1868	3.2130	3.4680	3.7650
10 years	3.3050	3.4010	3.5350	3.5980	3.9220	4.0880
15 years	3.6380	3.8580	3.8780	3.9700	4.3130	4.3670
20 years	3.6970	4.0030	3.9530	4.0700	4.4270	4.3600
25 years	3.6660	4.0760	3.9530	4.0210	4.4630	4.2925
30 years	3.4960	4.1240	3.9230	3.9520	4.4790	4.2170

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 for around 85 renowned international financial entities. The evolution of the main indices, 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 2010						
CDX USD Main	15	55.50	49.81	85.07	95.85	104.23
iTraxx Eur Main	14	-	79.49	105.35	113.24	120.17
iTraxx Eur Senior Financial	14	-	-	177.71	-	182.17
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

Interest rate volatility

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

(%)

	31.12.2010			31.12.2009		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	42.00	104.76	56.90	54.70	95.83	68.30
3 years	42.80	67.49	52.00	40.50	57.99	48.40
5 years	36.20	47.52	39.60	32.00	42.78	36.20
7 years	31.30	37.90	32.00	26.40	36.00	29.50
10 years	26.80	31.35	25.50	21.70	30.52	24.00
15 years	23.19	27.04	20.50	18.29	26.16	19.50

Exchange rate and volatility

Presented below are 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	**31.12.2010**	**31.12.2009**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.3362	1.4406	13.53	14.38	14.55	14.58	14.60
EUR/GBP	0.8608	0.8881	9.45	10.15	10.78	11.02	11.25
EUR/CHF	1.2504	1.4836	9.75	9.20	8.85	11.70	8.58
EUR/NOK	7.8000	8.3000	7.45	8.00	8.25	8.32	8.40
USD/BRL [a)]	1.6597	1.7432	9.95	12.25	13.45	14.41	15.35
USD/TRY [b)]	1.5487	1.4957	11.45	12.40	13.00	13.25	13.61

(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

The evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives as presented below:

	Quote			Historical volatility		Implied volatility
	31.12.2010	**31.12.2009**	**% change**	**1 month**	**3 months**	
DJ Euro Stoxx 50	2,793	2,965	(5.8)	18.42	17.32	22.99
PSI 20	7,588	8,464	(10.3)	18.08	14.12	-
IBEX 35	9,859	11,940	(17.4)	26.28	21.10	-
FTSE 100	5,900	5,413	9.0	15.37	13.98	16.55
DAX	6,914	5,957	16.1	15.60	14.18	18.64
S&P 500	1,258	1,115	12.8	10.84	13.46	15.17
BOVESPA	69,305	68,588	1.0	19.07	18.12	24.54

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 market quotes, 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 below:

- 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)

	31.12.2010	31.12.2009
Deposits with banks	5,427,710	10,582,103
Financial assets held for trading	3,760,285	4,388,925
Other financial assets at fair value through profit or loss	259,002	780,466
Available-for-sale financial assets	8,746,855	5,291,755
Loans and advances to customers	50,829,123	48,978,847
Held-to-maturity investments	2,458,800	2,541,829
Derivatives for risk management purposes	447,304	455,115
Other assets	660,872	464,584
Guarantees granted	8,198,285	6,983,166
Stand by letters of credit	3,239,192	3,016,076
Irrevocable commitments	5,349,361	5,338,345
Credit risk associated to the credit derivatives reference entities	404,756	393,163
	89,781,545	**89,214,374**

The analysis of the risk exposure by sector of activity, as at 31 December 2010 and 2009, can be analysed as follows:

(in thousands of euro)

31.12.2010	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit and loss	Derivatives for risk management purposes	Available-for-sale financial assets		Held-to-maturity investments		Guarantees granted
	Gross amount	Impairment				Gross amount	Impairment	Gross amount	Impairment	
Agriculture	560,703	(25,844)	7,111	-	-	20,314	(3,087)	-	-	42,191
Mining	507,759	(7,243)	4,833	-	-	3,222	-	-	-	22,068
Food, beverage and tobacco	897,598	(19,706)	14,893	-	-	24,501	(52)	4,308	-	99,118
Textiles	367,563	(63,174)	1,925	-	-	23,451	(2,238)	-	-	21,323
Shoes	135,256	(4,725)	629	-	-	1,434	(499)	-	-	2,269
Wood and cork	178,826	(24,093)	823	-	-	5,389	(1,500)	-	-	4,203
Printing and publishing	333,563	(6,121)	38,828	-	-	145,083	-	-	-	87,321
Refining and oil	17,670	(112)	692	-	-	4,523	-	-	-	55,457
Chemicals and rubber	524,851	(15,602)	13,633	-	-	29,009	(10,630)	13,163	-	83,872
Non-metallic minerals	439,876	(15,368)	800	-	-	3,905	-	-	-	64,396
Metallic products	650,669	(28,708)	1,529	-	-	3,836	-	-	-	114,290
Production of machinery, electric devices	442,265	(14,094)	3,463	-	-	34,273	(596)	14,412	-	173,632
Production of transport material	107,391	(10,255)	4,154	-	-	2,407	(31)	-	-	81,655
Other transforming industries	467,774	(24,251)	780	-	-	36,618	(15,508)	-	-	52,171
Electricity, gas and water	1,620,543	(16,604)	64,660	4,675	-	300,195	-	17,531	-	645,853
Construction	5,196,272	(221,660)	166,241	56,140	-	423,484	(6,625)	7,099	-	2,215,195
Wholesale and retail	3,633,806	(189,568)	16,482	-	-	188,712	(1,331)	-	-	521,139
Tourism	1,550,582	(41,937)	11,310	-	-	4,357	(376)	-	-	73,870
Transports and communications	2,565,859	(80,334)	232,331	-	510	366,162	(8,918)	214,665	-	981,406
Financial activities	2,191,977	(106,862)	1,381,629	1,233,259	441,820	3,334,313	(53,768)	1,081,317	(32,853)	128,764
Real estate activities	6,107,235	(187,461)	27,289	-	-	227,738	(1,724)	-	-	440,446
Services provided to companies	4,651,301	(128,042)	170,246	5	4,974	1,863,227	(38,968)	-	-	1,632,840
Public services	1,123,298	(17,297)	1,552,392	-	-	3,718,784	(1)	827,260	-	250,717
Non-profit organisations	3,459,987	(131,193)	221,000	130,252	-	1,152,872	(13,374)	307,884	(17,241)	293,488
Mortgage loans	11,701,009	(220,277)	-	-	-	-	-	-	-	39
Consumer loans	2,822,149	(172,209)	-	-	-	-	-	-	-	108,298
Other	350,329	(4,248)	4,388	-	-	16,304	(6)	21,255	-	2,264
TOTAL	**52,606,111**	**(1,776,988)**	**3,942,061**	**1,424,331**	**447,304**	**11,934,113**	**(159,232)**	**2,508,894**	**(50,094)**	**8,198,285**

(in thousands of euro)

31.12.2009	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit and loss	Derivatives for risk management purposes	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 and 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	-	-	0	-	-	-	5,354
Printing 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-metallic minerals	519,879	(17,103)	1,247	-	-	5,014	-	-	-	51,438
Metallic products	623,148	(23,313)	5,451	-	-	10,345	-	-	-	94,650
Production of machinery, 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	455,115	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**	**455,115**	**8,669,490**	**(137,890)**	**2,576,394**	**(34,565)**	**6,983,166**

As at 31 December 2010, the analysis of the loan portfolio by rating is as follows:

(in million of euro)

Rating/Scoring models	Internal scale (1)	31.12.2010 Credit amount	31.12.2010 (%)	31.12.2009 Credit amount	31.12.2009 (%)
Large companies	[aaa;a-]	549	1.04%	1,424	2.82%
	[bbb+;-bbb-]	3,019	5.74%	1,710	3.38%
	[bb+;bb-]	5,766	10.97%	5,705	11.29%
	[b+;b-]	9,077	17.26%	8,573	16.97%
	ccc+	1,472	2.80%	859	1.70%
Medium enterprises	7-9	361	0.69%	233	0.46%
	10-11	491	0.93%	410	0.81%
	12-13	745	1.42%	751	1.49%
	14-15	710	1.35%	823	1.63%
	16-17	944	1.79%	938	1.86%
	18-19	527	1.00%	628	1.24%
	20-21	706	1.34%	730	1.44%
	22-23	378	0.72%	351	0.69%
	24-25	1,036	1.97%	765	1.51%
Small enterprises	A	91	0.17%	180	0.36%
	B	446	0.85%	503	1.00%
	C	1,021	1.94%	930	1.84%
	D	578	1.10%	499	0.99%
	E	326	0.62%	318	0.63%
	F	475	0.89%	427	0.84%
Mortgage loans	01	1,250	2.38%	1,161	2.30%
	02	3,126	5.95%	2,762	5.47%
	03	2,324	4.42%	2,110	4.18%
	04	1,253	2.38%	1,271	2.52%
	05	691	1.31%	807	1.60%
	06	553	1.05%	626	1.24%
	07	1,318	2.51%	1,452	2.87%
	08	132	0.24%	180	0.35%
Private individuals	01	128	0.24%	95	0.19%
	02	90	0.17%	114	0.23%
	03	181	0.34%	184	0.36%
	04	341	0.65%	332	0.66%
	05	275	0.52%	310	0.61%
	06	211	0.40%	199	0.39%
	07	207	0.39%	158	0.31%
	08	135	0.26%	196	0.39%
	09	231	0.44%	310	0.61%
	10	5	0.01%	18	0.04%
No internal rating/scoring loans		11,437	21.75%	11,489	22.73%
TOTAL		**52,606**	**100.00%**	**50,531**	**100.00%**

(1) The lower the number or letter, the better the rating.

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)

	31.12.2010				31.12.2009			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange Risk	14,175	20,823	25,604	14,175	24,192	28,728	33,491	21,798
Interest rate risk	16,246	10,023	11,117	16,246	12,689	19,963	15,148	21,182
Shares and commodities	19,069	27,430	38,517	19,069	16,647	21,800	33,087	10,317
Diversification effect	(27,077)	(22,443)	(19,972)	(27,077)	(20,959)	(25,475)	(25,619)	(21,964)
Total	**22,413**	**35,833**	**55,266**	**22,413**	**32,569**	**45,016**	**56,107**	**31,333**

As at 31 December 2010, the Group had a VaR of euro 22,413 thousand (31 December 2009: euro 32,569 thousand) 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)

	31.12.2010							31.12.2009						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Eligible 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	306,203	306,203	-	-	-	-	-	218,596	218,596	-	-	-	-	-
Loans and advances to banks	5,233,425	-	4,812,102	32,420	152,138	232,865	3,900	10,363,962	-	9,894,709	137,973	131,784	199,496	-
Loans and advances to customers	51,126,679	-	34,260,946	10,978,739	2,223,847	2,025,674	1,637,473	49,354,877	-	33,417,961	11,124,973	2,288,567	1,998,350	525,026
Securities	17,587,249	4,370,943	7,473,730	2,393,445	1,758,316	1,305,122	285,693	14,566,218	3,536,116	7,734,590	2,383,996	611,382	242,678	57,456
Off balance sheet		-	519,395	(90,383)	7,325	(295,043)	6,809		-	592,134	(36,325)	(53,159)	(420,500)	(75,251)
Total			**47,066,173**	**13,314,221**	**4,141,626**	**3,268,618**	**1,933,875**			**51,639,394**	**13,610,617**	**2,978,574**	**2,020,024**	**507,231**
Deposits from banks	14,396,026	-	12,296,393	520,551	540,253	735,257	303,572	10,991,389	-	7,448,271	1,649,238	1,324,381	328,539	240,960
Due to customers	29,795,365	-	21,641,465	2,113,872	2,080,051	3,890,925	69,052	24,044,655	-	19,931,669	1,312,377	1,682,586	1,053,858	64,165
Repo´s with clients	436,528	-	436,528	-	-	-	-	783,354	-	782,959	-	-	-	395
Debt securities issued and subordinated debt	27,475,970	-	12,362,357	656,213	226,896	9,646,252	4,584,252	35,315,641	-	19,873,934	1,606,511	1,489,320	8,975,999	3,369,877
Preference shares	920,033	-	-	-	-	920,033	-	600,000	-	-	-	-	600,000	-
Off balance sheet		-	5,702,263	1,370,396	(184,240)	(6,403,786)	(411,259)		-	5,456,692	1,150,421	(1,591,216)	(4,160,395)	(833,545)
Total			**52,439,006**	**4,661,032**	**2,662,960**	**8,788,681**	**4,545,617**			**53,493,525**	**5,718,547**	**2,905,071**	**6,798,001**	**2,841,852**
GAP (assets - liabilities)			**(5,372,833)**	**8,653,189**	**1,478,666**	**(5,520,063)**	**(2,611,742)**			**(1,854,131)**	**7,892,070**	**73,503**	**(4,777,977)**	**(2,334,621)**

The model used to monitor the sensitivity 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)

	31.12.2010				31.12.2009			
	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	297,571	(297,571)	168,726	(168,726)	303,566	(303,566)	164,981	(164,981)
Average for the year	320,453	(320,453)	177,813	(177,813)	175,241	(175,241)	103,011	(103,011)
Maximum for the year	333,432	(333,432)	188,564	(188,564)	303,566	(303,566)	164,981	(164,981)
Minimum for the year	297,571	(297,571)	168,726	(168,726)	31,053	(31,053)	25,887	(25,887)

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 2010 and 2009:

(in thousands of euro)

	31.12.2010			31.12.2009		
	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	6,495,350	215,370	3.32%	8,615,032	190,614	2.21%
Loans and advances to customers	52,042,341	2,037,794	3.92%	48,578,733	2,195,255	4.52%
Securities	13,282,199	669,226	5.04%	10,654,732	551,017	5.17%
Differential applications	343,086	-	-	169,458	-	-
Financial Assets	**72,162,976**	**2,922,390**	**4.05%**	**68,017,955**	**2,936,886**	**4.32%**
Monetary liabilities	13,522,742	193,722	1.43%	12,187,408	276,057	2.27%
Due to consumers	27,145,694	507,825	1.87%	24,515,188	463,655	1.89%
Other	31,494,540	1,056,885	3.36%	31,315,359	996,359	3.18%
Differential resources	-	-	-	-	-	-
Financial Liabilities	**72,162,976**	**1,758,432**	**2.44%**	**68,017,955**	**1,736,071**	**2.55%**
Net interest income		**1,163,958**	**1.61%**		**1,200,815**	**1.77%**

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2010 and 2009 is analysed as it follows:

(in thousands of euro)

		31.12.2010				31.12.2009			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	United States Dollars	(3,426,729)	3,855,544	(198,660)	230,155	(2,172,498)	2,585,683	(16,407)	396,778
GBP	Great Britain Pounds	243,793	(180,981)	14,272	77,084	(866,330)	883,392	(9,093)	7,969
BRL	Brazilian real	1,143,453	(3,731)	(2,375)	1,137,347	1,009,280	-	19,957	1,029,237
DKK	Danish Krone	52,071	(3,873)	-	48,198	348,280	(300,667)	-	47,613
JPY	Japanese yene	(330,718)	373,190	(111,436)	(68,964)	(192,032)	240,008	(146,870)	(98,894)
CHF	Swiss franc	88,969	(84,849)	5,838	9,958	(160,196)	163,805	1,031	4,640
SEK	Swedish krona	15,232	(17,061)	-	(1,829)	85,773	(88,666)	15,909	13,016
NOK	Norwegian krone	1,910	(2,995)	7,689	6,604	(916)	(1,385)	74,699	72,398
CAD	Canadian Dollar	31,403	(20,886)	2,880	13,397	2,151	369	2,399	4,919
ZAR	Rand	2,897	(6,844)	(38,589)	(42,536)	(2,342)	-	10	(2,332)
AUD	Australian Dollar	165,596	(158,495)	10,848	17,949	180,233	(175,561)	40,816	45,488
AOA	Kwanza	(414,047)	-	-	(414,047)	(37,771)	-	-	(37,771)
CZK	Czech koruna	(20,712)	20,842	-	130	(14,719)	18,585	(1,878)	1,988
	Other	(19,480)	(39,194)	451,980	393,306	157,325	(127,593)	138,200	167,932
		(2,466,362)	**3,730,667**	**142,447**	**1,406,752**	**(1,663,762)**	**3,197,970**	**118,773**	**1,652,981**

Nota: 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 liquidity 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)

	31.12.2010	31.12.2009
Cash and deposits with banks	5,478	10,594
Short term deposits from banks	(12,155)	(8,929)
Treasury Gap I [(1)]	(6,677)	1,665
Securities acceptable as collateral	16,515	10,868
Securities used as at 31 December	(7,419)	(2,000)
Treasury Gap II	**2,419**	**10,533**

(1) - Treasury Gap - immediate liquidity and short term interbank loans deducted to interbank debt up to one year.

As at 31 December 2010, the treasury Gap was negative in the amount of euro 6,677 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 16,515 million. From this amount, euro 7,419 million were utilised as at 31 December 2010, being available in one year.

In addition, the Group calculates the liquidity ratios in accordance with the Bank of Portugal rules (Instruction 13/2009):

(in million of euro)

	31.12.2010	31.12.2009
Accumulated mismatch [(1)]	(5,463)	(4,069)
Net assets buffer [(2)]	5,502	3,890
Liquidity position	**39**	**(179)**
Other assets acceptable as collateral	1,491	1,572
Global liquidity	**1,530**	**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 2010, the treasury Gap was positive in the amount of euro 1,530 million. (31 December 2009: euro 1,393 million).

The mismatch by residual periods is presented as follows:

(in million of euro)

	31.12.2010						
	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	489	489	-	-	-	-	-
Loans and advances to banks and central banks	5,233	3,394	907	454	30	191	257
Loans and advances to customers	50,655	629	1,428	1,590	1,869	2,798	42,341
Securities*	19,906	369	1,446	993	1,398	1,455	14,245
Other assets, net	3,147	3,147	-	-	-	-	-
Off-balance sheet items (Commitments and Derivatives)	4,550	67	232	534	559	881	2,277
Total		**8,095**	**4,013**	**3,571**	**3,856**	**5,325**	**59,120**
LIABILITIES							
Deposits from banks, central banks and other loans	14,833	6,142	1,594	3,893	474	603	2,127
Due to customers	29,795	34	2,075	316	423	984	25,963
Debt securities issued	26,244	339	1,701	4,353	1,276	719	17,856
Other short-term liabilities	2,355	2,355	-	-	-	-	-
Off-balance sheet items (Commitments and Derivatives)	26,898	219	259	713	691	1,160	23,856
Total		**9,089**	**5,629**	**9,275**	**2,864**	**3,466**	**69,802**
GAP (Assets - Liabilities)		**(994)**	**(1,616)**	**(5,704)**	**992**	**1,859**	**(10,682)**
Accumulated GAP		**(994)**	**(2,610)**	**(8,314)**	**(7,322)**	**(5,463)**	**(16,145)**
Buffer > 12 months						**5,502**	

* This caption includes securities held by the Group which can be rediscounted with the ECB for liquidity purposes.

(in million 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 a behaviour model to estimate the expected maturity.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviours, information systems and external events.

To manage operational risk, it was developed and implemented a system that standardises, systematises and regulates the frequency of actions with the objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organisational 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 solvency 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) fulfilment of the minimum requirements defined by the supervision authorities in terms of capital adequacy and (iii) to ensure the fulfilment 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 fulfil.

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: regulatory capital (Tier I), regulatory capital (Tier II) and Deductions, as follows:

- **Tier I:** This category includes the realised capital, the eligible reserves (excluding the fair value reserves), the retained earnings of the period, non-controlling interests and preference shares and other hybrid equity instruments. The unrealised losses recognised under the fair value reserve and associated with equity securities, book value of goodwill, intangible assets and negative actuarial differences 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.
- **Tier II:** 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 regulatory rules determine that the Tier II cannot exceed the Tier I. Also, some components of the Tier II (Lower Tier II) cannot exceed 50% of the Tier I.

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 2010 and in the following years is euro 137 million.

At 2010 and 2009, the main movements occurred in Tier I capital are as follows:

(in million of euro)

	31.12.2010	31.12.2009
Balance at the beggining of the year	**5,405**	**3,948**
Capital increase	-	1,180
Hybrid Instruments	320	-
Retain profit for the year	330	325
Non-controlling interests, excluding hybrids	207	130
Actuarial differences related to post-employment benefits (changes in actuarial losses)	(196)	(3)
Recognition of the impact of adopting IFRS	(12)	(12)
Deduction in connection with investments held in banking and insurance entities	131	(363)
Fair value reserves with an impact in BOF	(13)	213
Other effects	(132)	(13)
Balance at the end of the year	**6,040**	**5,405**

The capital adequacy of BES Group as at 31 December 2010 and 31 December 2009 is presented as follows:

(in million of euro)

		31.12.2010	31.12.2009
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		4,585	4,560
Elegible reserves and retained earnings (excluding fair value reserves)		1,310	996
Minority Interest		491	284
Intangible assets		(140)	(122)
Changes on actuarial Losses		(359)	(163)
Goodwill		(479)	(356)
Fair value reserves with an impact on BOF		(30)	(17)
Recognition of the impact of adopting IFRS		38	50
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**5,416**	**5,232**
Preference shares		600	600
Hybrid instuments, elegible for Tier I		320	-
Deductions in connection with investments held in banking and insurance entities		(296)	(427)
Basic own funds (Tier I)	**(A2)**	**6,040**	**5,405**
Positive fair value reserves (45%)		84	192
Eligible subordinated debt		1,925	2,095
Deductions in connection with investments held in banking and insurance entities		(207)	(424)
Complementary own funds (Tier II)		**1,802**	**1,863**
Deductions		**(44)**	**(12)**
Eligible own funds	**(A3)**	**7,798**	**7,256**
B- Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		60,610	57,426
Calculated according Notice 8/2007 (Market Risk)		4,219	4,003
Calculated according Notice 9/2007 (Operational Risk)		3,973	3,668
Risk Weighted Assets Total	**(B)**	**68,802**	**65,097**
C- Prudential Ratios			
Core Tier 1	(A1 / B)	7.9%	8.0%
Tier 1	(A2 / B)	8.8%	8.3%
Solvency Ratio	**(A3 / B)**	**11.3%**	**11.2%**

NOTE 45 – Business Combinations Occurred In The Period

AMAN BANK

In April 2010, BES acquired 40% of the share capital of Aman Bank for Commerce and Investment Stock Company (Aman Bank), a privately owned Bank in Libya with registered office in Tripoli, with the purpose of fostering access to markets in Northern Africa and in Libya in particular. This entity is fully consolidated as BES Group took management control of Aman Bank.

The total investment of euro 40.3 million corresponds to an initial investment of euro 24.3 million in cash for the acquisition of 40% of Aman Bank share capital (see Note 1) and to an additional amount of euro 16.0 million related with the subscription of new shares in Aman Bank share capital increase proportional to the acquired stake (40%).

The acquisition of Aman Bank was accounted for on a provisional basis, in accordance with paragraph 45 of IFRS 3, being pending only the receipt of the final evaluation of the Headquarters building recorded under the balance tangible assets. The acquisition registration should be completed by April 2011.

The balance sheet of Aman Bank as at 30 April 2010 can be presented as follows:

(in thousands of euro)

	Balance sheet
Assets	
Cash and deposits at banks	302,076
Available-for-sale financial assets	100,224
Loans and advances to banks	14,298
Loans and advances to customers	9,339
Tangible assets	15,239
Intangible assets	864
Other assets	14,692
	456,732
Liabilities	
Due to customers	368,848
Other liabilities	26,044
	394,892
Equity	
Share capital	58,967
Other reserves and retained earnings	2,873
	61,840
Total equity and liabilities	**456,732**

The revenue and profit of Aman Bank from the acquisition date to 31 December 2010 included in the consolidated revenue and consolidated profit, amount to euro 8,630 thousand and euro 1,392 thousand (loss), respectively. If Aman Bank had been consolidated since 1 January 2010, the Group estimates that total consolidated revenues would increase by euro 5,014 thousand. Consolidated profit would increase by euro 2,000 thousand.

The goodwill recognised as a result of this acquisition amounts to euro 15 533 thousand, as follows:

(in thousands of euro)

Consideration paid	40,269
Net equity at acquisition date	67,358
Net equity acquired	**26,934**
Goodwill determined on a provisional basis	13,326

The goodwill is attributable mainly to the existing client's portfolio and to the growth potential of the markets where Aman Bank operates.

The Group incurred in an acquisition-related cost of euro 1.6 million. These costs mainly relate with external legal fees and due diligence costs and were recognised in the income statement.

EXECUTION NOBLE

In November 2010, BES Group acquired a 50.1% stake in the English brokerage group Execution Noble, founded in September 2003 with headquarters in London UK, with the aim to strengthen its international leadership position in providing services in the brokerage sector.

The total investment of euro 58 million corresponds to the initial investment paid in cash to acquire 50.1% stake in Execution Holding Limited.

The Group has recently initiated the process of quantifying the adjustments arising from the application of IFRS 3 and expects to have it concluded until November 2011. Therefore, as at 31 December 2010, the acquisition of Execution Noble is accounted for on a provisional basis, in accordance with paragraph 45 of IFRS 3. The balance sheet of Execution Noble as at 30 November 2010 can be presented as follows:

(in thousands of euro)

	Balance sheet
Assets	
Cash and deposits at banks	17,468
Available-for-sale financial assets	1,067
Loans and advances to banks	-
Loans and advances to customers	5,496
Tangible assets	1,870
Intangible assets	8,200
Other assets	11,140
	45,241
Liabilities	
Due to customers and other loans	5,851
Other liabilities	15,202
	21,053
Equity	
Share capital	58,164
Other reserves and retained earnings	(33,976)
	24,188
Total equity and liabilities	**45,241**

The profit of Execution Noble from the acquisition date to 31 December 2010 included in the consolidated profit, amount to euro 10 thousand. If Execution Noble had been consolidated since 1 January 2010, the Group estimates that total consolidated revenues would increase by euro 27,693 thousand. Consolidated profit would increase by euro 8,651 thousand.

The goodwill recognised as a result of this acquisition amounts to euro 46,046 thousand, as follows:

(in thousands of euro)

Consideration paid	58,164
Net equity at acquisition date	24,188
Net equity acquired	**12,118**
Goodwill determined on a provisional basis	46,046

The goodwill is attributable mainly to the existing client's portfolio and to the growth potential of the markets where Execution Noble operates.

The Group incurred in an acquisition-related cost of euro 1,584 million. These costs mainly relate with external legal fees and due diligence costs and were recognised against the income statement.

GESPASTOR

In December 2010, the Group acquired 100% of the share capital of Gespastor SGIIC, SAU, founded in 1974 with headquarters in Madrid, Spain, with the aim of developing the asset management business in Spain. The total amount of the investment, paid in cash, was euro 25.3 million.

The Group has recently initiated the process of quantifying the adjustments arising from the application of IFRS 3 and expects to have it concluded until December 2011. Therefore, as at 31 December 2010, the acquisition of Gespastor is accounted for on a provisional basis, in accordance with paragraph 45 of IFRS 3.

The balance sheet of Gespastor S.G.I.I.C, S.A.U as at 31 December 2010 can be presented as follows:

(in thousands of euro)

	Balance
Assets	
Cash and deposits with banks	470
Financial assets held for trading	677
Available-for-sale financial assets	51
Loans and advances to banks	6,050
Tangible assets	162
Intangible assets	309
Other assets	1,333
	9,052
Liabilities	
Due to customers and other loans	-
Other liabilities	2,698
	2,698
Equity	
Share Capital	3,005
Other reserves and retained earnings	3,349
	6,354
Total equity and liabilities	**9,052**

The revenue and profit of Gespastor S.G.I.I.C, S.A.U from the acquisition date to 31 December 2010 included in the consolidated revenue and consolidated profit, amount to euro 243 thousand and euro 13 thousand, respectively. If Gespastor S.G.I.I.C, S.A.U. had been consolidated since 1 January 2010, the Group estimates that total consolidated revenues would increase by euro 10 027 thousand. Consolidated profit would increase by euro 245 thousand.

The goodwill recognised as a result of this acquisition amounts to euro 18,987 thousand, as follows:

(in thousands of euro)

Consideration paid	25,354
Net equity at acquisition date	6,354
Goodwill determined on a provisional basis	19,000

The goodwill is attributable mainly to the existing client's portfolio and to the growth potential of the markets where Gespastor operates.

The Group incurred in an acquisition-related cost of euro 309 thousand. These costs mainly relate with external legal fees and due diligence costs and were recognised against the income statement.

NOTE 46 – Recently Issued Pronouncements

RECENTLY ISSUED PRONOUNCEMENTS ALREADY ADOPTED BY THE GROUP

In the preparation of the consolidated financial statements for the year ended 31 Dezember 2010, the Group adopted the following standards and interpretations that are effective since 1 January 2010:

IFRS 1 (amendment) – First time adoption of IFRS and IAS 27 – Consolidated and separate financial statements

The amendments of 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 adoption of these amendments is mandatory since 1 January 2010 and had no significant impacto on the Group financial statements.

IFRS 5 (amended) – Non-current assets held for sale and discontinued operations

This amendment clarifies the disclosures required by the norm regarding non-current assets (or groups held for disposal) clarified for sale or discontinued operations.

The adoption of this amendment had no significant impact in the Group 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 adoption of this amendment by the Group had no impact on its financial statements.

IFRIC 12 – Service concession arrangements

The International Financial Reporting Interpretations 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.

The adoption of this interpretation by the Group had no impact on its financial statements.

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 clarifies 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 is recognised in the income statement.

The adoption of this interpretation by the Group had no impact 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 adoption of this interpretation by the Group had no impact 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. The amendments with effects to the Group in 2010 are as follows:
- 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 adoption of this amendment by the Group had no impact on its 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 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 recognise 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.

IFRS 7 - Financial Instruments: Disclosures - Transfers of Financial Assets

On October 2010 the International Accounting Standards Board (IASB) published Disclosures—Transfers of Financial Assets (Amendments to IFRS 7). The amendment is applicable for annual periods beginning on or after 1 July 2011. Earlier application is permitted. This amendment has not yet been adopted by the European Union.

The amendments required to disclosures about transactions that involve transfer of financial assets, namely securitisations of financial assets, intend to help users of financial statements to evaluate the risks and the impacts associated to those transactions in the financial statements.

The Group is currently evaluating the impact of the adoption of this amendment.

IAS 24 (revised) – Related party disclosures

On November 2009 the International Accounting Standards Board (IASB) published Related Party Disclosures (IAS 24 revised). The amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted. This amendment has not yet been adopted by the European Union.

The revised standard clarifies and simplifies the definition of related party and the requirement for State related entities to disclose in detail all transactions with the State and other similar entities.

The Group is currently evaluating the impact of the adoption of this amendment.

IAS 32 (amendment) – Classification of Rights Issues

On 8 October 2009 the International Accounting Standards Board (IASB) published Classification of Rights Issues (Amendment to IAS 32). The amendment is applicable for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

This amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer and requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

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

IFRIC 14 (Amended) – Prepayments of a minimum funding requirement

This amendment intends to remove an unintended consequence of IFRIC 14 – "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

The amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted. An entity shall apply the amendments from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies this Interpretation.

The Group is currently evaluating the impact of the adoption of this amendment.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

On 26 November 2009 the International Accounting Standards Board (IASB) published IFRIC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments. The interpretation is applicable for annual periods beginning on or after 1 July 2010. Early application is permitted.

The IFRIC noted that there was diversity in practice in how entities measured an equity instruments issued in a debt for equity swap. A 'debt for equity swap' transaction normally refers to a transaction in which a debtor and a creditor renegotiate the terms of a financial liability, such that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor.

The interpretation clarifies (i) when an entity's equity instruments issued to extinguish all or part of a financial liability corresponds to 'consideration paid' in accordance with IAS 39 paragraph 41, (ii) how should an entity initially measure the equity instruments issued to extinguish the financial liability and (iii) how should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued.

The Group is currently evaluating the impact of the adoption of this interpretation.

NOTE 47 – Subsequent Events

- At the end of October, Banco Espirito Santo has obtained a formal approval from the Venezuelan authorities to open a branch in the country where it has been for 17 years through a Representative Office. This initiative is part of the strategy and business model that BES Group has pursued in the international dimension, by expanding its activities for markets with cultural and economic affinities with Portugal. In this context it is particularly important the Venezuelan market, where the Portuguese community amounts to more than half a million, representing the Luso descendants a very significant number. With the establishment of the Branch and the development of banking in the form of universal banking, the Group intends to focus its activity on the natural market of the Portuguese community resident in this country and in big companies and institutions. In mid January 2011 the administrative process was completed and the Branch will start operating, predictably, during the third quarter of 2011.

- In 26 October 2010, Banco Espírito Santo announced an agreement to acquire, through BES Africa, SGPS, SA, a stake of 25.1% in Moza Banco, SA, by the amount of euro 7.1 million, with the simultaneous share capital increase, that BES will subscribe at the equivalent percentage of the share capital acquired (25.1%), representing a total investment of euro 8.1 million. The operation took place on January 20, 2011, and from that date Moza Banco became an associate of the BES Group.

- During the month of February 2011 there was a climate of political and social instability throughout North Africa and Libya. In this country, where is located Aman Bank, entity on which the Group holds a 40% stake, there is a political situation of great gravity. The value of the investment amounts to euro 40.3 million as disclosed in Note 45. BES Group is closely monitoring the evolution of the situation in Libya.

2 Appendix

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)

The period of strong financial turmoil in the world markets was essentially concentrated in the year 2008, and its impacts on BES Group were disclosed in the Annual Report for that year.

I. BUSINESS MODEL

1. Description of the Business Model

A description of the Group's business model is provided in Item 3 of the Management Report. The performance of the main business areas (operational segments) of the Group is also presented in Note no.4 .

2. Strategies and Objectives

A description of the Group's strategy and objectives is provided in the Item 1.6 of the Management Report. The securitization transactions are detailed in item 4 of the Management report and in Note no. 42.

3., 4. and 5. Activities developed and contribution to the business

Item 3 of the Management Report and Note no. 4 contain 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 5 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 form a perception about the risks incurred by BES Group and the management mechanisms for their monitoring and control.

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8., 9., 10. and 11. Qualitative and quantitative description of the results and comparison of impacts between periods

During the year 2009 there were no turbulent facts that could be considered to have relevant material impact on the year's activity and results. In 2010 there was an increase in sovereign risk that led to a substantial rise in risk premia, with impacts on the following areas: determination of EUR 117 million losses on credit instruments (item 6.4 d) of the Management Report); recognition of EUR 79 million negative fair value reserves for debt instruments (Note no. 19); increase in the cost of funding – a 16 bp differential between the interest rate on customer funds and the interest rate on customer loans had a negative impact of ca. EUR 110 million on net interest income.

Despite these impacts, the Group maintained its capacity to generate results through an active management of the financial instruments in the trading, fair value and available for sale portfolios, which totalled a gain of EUR 369 million.

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 1.7 of the 2010 Management Report presents the BES share price performance, which was in line with its peers in Portugal and Spain.

14. Maximum loss risk

Item 5 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

18. Information about the Group's exposures

During the year 2009 there were no turbulent facts that could be considered to have relevant material impact on the year's activity and results. In 2010 the turmoil was essentially due to the deterioration of sovereign risk of peripheral Euro Area countries. At the end of 2010 BES Group's total exposure to these countries' public debt was EUR 2 286 million, or which EUR 1,955 million to Portugal, EUR 309 million to Greece (repaid on 14 January 2011), EUR 21 million to Spain and EUR 0 to Ireland. The associated negative fair value reserve amounted to EUR 27 million.

19. Movement in exposures between periods

Note 44 contains diverse information comparing the exposures and results in 2009 and 2010. The disclosed information is considered sufficient, given the detail and quantitative information presented.

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 entities 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

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, and the Corporate Governance 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 also provides 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, at environmental and social level, and in the area of innovation and entrepreneurship.

Item 1.7 of the Management Report provides detailed information on BES Group's market communication policy.

3 Auditors' Report on the Consolidated Financial Statements

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 consolidated 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 2010, of Banco Espírito Santo, S.A., which comprise the consolidated balance sheet as at 31 December 2010 (showing total assets of Euro 83,655,427 thousand and total equity attributable to the equity holders of the Bank of Euro 6,934,838 thousand, including a net profit attributable to the equity holders of the Bank of Euro 510,520 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.

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 Group of companies included in the consolidation, the consolidated results of its operations, its consolidated 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 Portuguese Securities 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 report 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 consolidated 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 Board of Directors report is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code ("Código das Sociedades Comerciais").

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 2010, 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.

Report on Other Legal Requirements

8. It is also our opinion that the consolidated financial information included in the Executive Board of Directors report is consistent with the consolidated financial statements and that the Report on Corporate Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 4 March 2011

KPMG & Associados, 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)

4 Report of the Audit Committee

REPORT OF THE AUDIT COMMITTEE FOR THE YEAR 2010

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 Audit Committee (Comissão de Auditoria) during the year 2010 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 2010, as well as on the related Board of Directors' proposal for the appropriation of the unconsolidated profit for the financial year 2010.

In compliance with the applicable legal, regulatory, and statutory responsibilities, during 2010 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 duties, we have also overlooked the external audit of the unconsolidated and consolidated financial statements of the bank, which included (i) the verification of the accounting records and related supporting documents and (ii) the appropriateness of the accounting policies and procedures underlying the abovementioned financial statements, as well as (iii) the verification that the financial information contained in the Management Report is in conformity with that in the remaining financial reporting documents. The external audit has been performed by KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A. (KPMG), the Accounting Firm which has 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 Audit Reports and Opinions of the bank's Statutory Auditors on the unconsolidated and consolidated financial statements of Banco Espírito Santo, S.A. for the year ended 31 December 2010, which contain their unqualified professional opinions, with which we agree, dated 4 March 2011 on those financial statements.

We have also reviewed the Management Report of the Board of Directors which describes the bank's activity during the financial year 2010, both on an unconsolidated and consolidated basis, and was prepared in conformity with the applicable legal, regulatory, and statutory requirements.

As required under paragraph 1-c) of Article 245º of the Portuguese Securities Code (Código de Valores Mobiliários), the Audit Committee members named hereunder declare that to the best of their knowledge:

a) the information contained in the Management Report of the Board of Directors, Unconsolidated and Consolidated Financial Statements, Audit Reports and Opinions of the bank's Statutory Auditors, and other annual reporting documents as required by law or regulation was drawn up in accordance with the applicable accounting standards, giving a true and fair view of assets and liabilities, financial position and annual results of Banco Espírito Santo, S.A. and of the companies included in the consolidation; and
b) the Management Report of the Board of Directors explains faithfully the development, performance, and position of the bank and other undertakings included in the consolidation, and contains a description of their main risks and uncertainties.

All considered, we are of the opinion that the Annual General Meeting of Shareholders of Banco Espírito Santo, S.A. should approve:

a) The Management Report of the Board of Directors and the related Unconsolidated and Consolidated Financial Statements of the bank for the financial year ended 31 December 2010;
b) The Board of Directors' proposal for the appropriation of the unconsolidated net profit for the financial year 2010, amounting to 255,997,121.83 euros.

Lisbon, 7 March 2011

The Audit Committee
José Manuel Ruivo da Pena (Chairman)
Luis Daun e Lorena
João de Faria Rodrigues

III. Corporate Governance Report

Early afternoon for BES in Miami // Late evening for BES in Luanda

The corporate governance rules and structure of Banco Espírito Santo («BES») were established with the aim of ensuring responsible governance oriented to value creation.

BES Group has adopted the following statement of principles:

VALUE

Value creation based on responsible governance so as to deserve the confidence and loyalty of Shareholders, Clients, Employees and Suppliers.

KNOW-HOW

Business development hinged on the accumulation and transmission of know-how over more than one century of history.

INTEGRITY

Definition of strict policies to manage the various types of risk incurred in banking activities.

TRANSPARENCY

Assuming a commitment to transparent practices:

- in the disclosure of information to all stakeholders;
- in the establishment of strategic objectives and a set of corporate values that are effectively communicated throughout the organisation;
- by setting and enforcing clear lines of responsibility and accountability throughout the organisation;
- by 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.

The 2010 report on BES's corporate governance structures and practices incorporates the information elements and follows the model set out in the annex to CMVM regulation no. 1/2010. Section III of this annex (points II.21. to II.29.) is not contemplated in so far as BES has adopted the Anglo-Saxon model, where the supervisory body is the Audit Committee rather than an Audit Board or Supervisory Board.

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 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 that have or have not been adopted

CMVM Recommendations	Adopted	Non Adopted	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 requirement for the Board to receive statements for share deposit or blocking for participation at the general meeting shall not exceed five working days.	X		I.4.
I.2.2. Should the General Meeting be suspended, the company shall not compel share blocking during the interim period until the meeting is resumed and shall then follow the standard requirement of the first session.	X		I.5.
I.3.1. Companies shall not impose any statutory restriction on postal voting and whenever adopted or admissible, on electronic voting.	X		I.9.
I.3.2. The statutory deadline for receiving early voting ballots by mail shall not exceed three working days.	X		I.11.
I.3.3. Companies shall ensure that the level of voting rights and the shareholder's participation is proportional, ideally through the statutory provision that obliges the one share-one vote principal. The companies that: i) hold shares that do not confer voting right; ii) establish non-casting of voting rights above a certain number, when issued solely by a shareholder or by shareholders related to former, do not comply with the proportionality principle.	X		I.6. & I.7.
I.4. Companies shall not set a deliberating quorum that outnumbers that which is prescribed by law.		X	I.8.
I.5. Extracts from the minutes of the general meetings or documents with corresponding content must be made available to shareholders on the company's website within a five day period after the General Meeting has been held, irrespective of the fact that such information may not be classified as material information. The information disclosed shall cover the resolutions passed, the represented capital and the voting results. Said information shall be kept on file on the company's website for no less than a 3-year period.	X		I.13. & I.14.
I6.1. Measures aimed at preventing successful takeover bids, shall respect both the company's and the shareholders' interests. The company's articles of association that by complying with said principal, provide for the restriction of 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), on whether that statutory provision is to be amended or prevails – 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.	X		I.19.
I.6.2 . 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 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.20.
II.1.1.1. The Board of Directors shall assess the adopted model in its corporate 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 and risk management systems in order to safeguard the company's worth and keep its corporate governance transparent and which will identify and manage the risk. Said systems shall include at least the following components: i) setting of the company's strategic objectives as regards risk assumption; ii) identification of the main risks associated to the company's activity and any events that might generate risks; iii) analysis and determination of the extent of the impact and the likelihood that each of said potential risks will occur; iv) risk management aimed at aligning those risks actually incurred with the company's strategic options for risk assumption; v) mechanisms to control the execution of adopted risk management measures and their effectiveness; vi) adoption of internal mechanisms for information and communication on the various components of the system and for risk-warning; vii) regular assessment of the system implemented and adoption of the amendments deemed necessary.	X		II.5.
II.1.1.3. The Board of Directors shall ensure the establishment and functioning of the internal control and risk management systems. The supervisory body shall be responsible for assessing the functioning of said systems and for proposing any adjustments as needed by the company.	X		II.6.
II.1.1.4. In their Annual Report on Corporate Governance, companies shall: i) identify the main economic, financial and legal risks to which they are exposed through the exercise of their activity; ii) describe the performance and efficiency of the risk management system.	X		II.5. & II.9.

CMVM Recommendations	Adopted	Non Adopted	BES Report
II.1.1.5. The Board of Directors and the supervisory body shall establish internal regulations and shall have these disclosed on the company's website.	X		II.7.
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.14.
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.14.
II.1.2.3. The assessment made by the Board of Directors of the independence of its non-executive members shall take into account the legal and regulatory rules in force concerning independence requirements and the incompatibilities framework applicable to members of other corporate bodies, and ensure orderly and sequential consistency in the application of independence across the company. An independent executive member shall not be considered as such, if in another corporate board and by force of applicable rules, may not be an independent executive member. A board member shall not be considered independent if in another corporate body he/she could not be considered as such by force of applicable rules.	X		II.15.
II.1.3.1. Depending on the applicable model, the Chair of the Audit Board, the Audit Committee or the Financial Matters Committee shall be independent and be adequately capable to carry out his/her duties .	X		II.3., II.14. & II.18.
II.1.3.2. The selection process of candidates for non-executive directors shall be conjured so as prevent interference by executive directors.	X		II.16.
II.1.4.1. The company shall adopt a policy whereby irregularities occurring within the company, are reported. Such reports shall 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.35.
II.1.4.2. The general guidelines on this policy should be disclosed in the corporate governance report.	X		II.35.
II.1.5.1. The remuneration of the members of the Board of Directors shall be aligned with the long-term interests of the shareholders. Furthermore, the remuneration shall be based on performance assessment and shall discourage excessive risk taking.		X	II.32.
II.1.5.2. The statement on the remuneration policy of the Board of Directors and supervisory body referred to in Article 2 of Law No. 28/2009 of 19 June, shall contain, in addition to the content therein stated, adequate information on: i) the groups of companies the remuneration policy and practices of which were taken as a comparison element for setting the remuneration ii) payments for dismissal or voluntary termination of directors.	X		II.30. II.33 & Appendix
II.1.5.3. The remuneration policy statement referred to in Article 2 of Law No. 28/2009 shall also include the directors' remunerations which contain an important variable component, within the meaning of Article 248 /B/3 of the Securities Code. The statement shall be detailed and the policy presented shall particularly take into account the long-term performance of the company, compliance with the rules applicable to its business and restraint in risk taking.	X		Appendix II
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 senior officers 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 plan's regulation 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 senior officers within the context of Article 248/3/B of the Securities Code shall also be approved by the General Meeting.	X		I.17. & I.18.
II.1.5.6. At least one representative of the Remuneration Committee shall be present at the Annual General Shareholders Meeting.	X		I.15.
II.1.5.7. The amount of remuneration received, as a whole and individually, in other companies of the group and the pension rights acquired during the financial year in question shall be disclosed in the Annual Report on Corporate Governance.	X		II.31.
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 of the company, and the delegated duties should be identified in the Annual Report on Corporate Governance.	X		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 take decisions in an independent and informed manner, and furthermore shall explain these mechanisms to the shareholders in the corporate governance report.	X		II.8.
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.17.
II.2.5. The company shall expound its policy concerning portfolio rotation on the Board of Directors, including the person responsible for the financial portfolio, and report on same in the Annual Corporate Governance Report.	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.

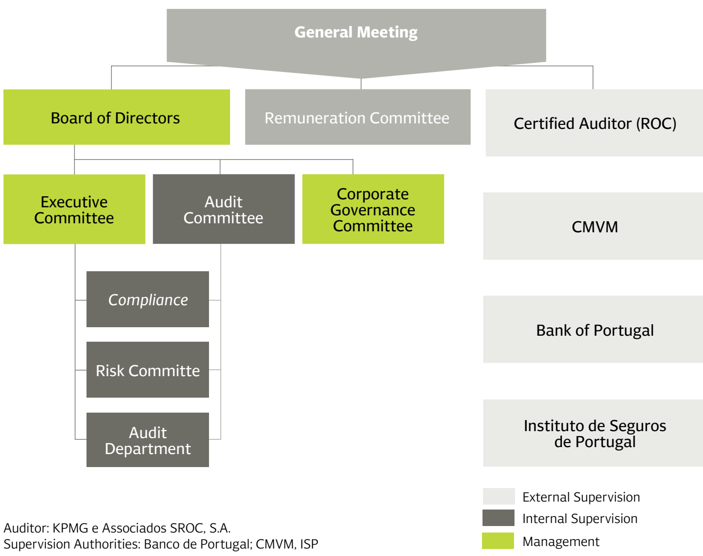
CMVM Recommendations	Adopted	Non Adopted	BES Report
II.3.2. The Chair of the Executive Committee shall send the convening notices and minutes of the meetings to the Chair of the Board of the Directors and, when applicable, to the Chair of the Supervisory Board or the Audit Committee.	X		II.13.
II.3.3. 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		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		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.4. & III.15.
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.4.
II.4.4. The General and Supervisory Board, 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 General and Supervisory Board, the Audit Committee and the Audit Board, shall assess the external auditor on an annual basis and advise the General Meeting that they be discharged whenever justifiable grounds are present.	X		II.3.
II.4.6. The internal audit services and those that ensure compliance with the rules applicable to the company (compliance services) shall functionally report to the Audit Committee, the General and Supervisory Board or in the case of companies adopting the Latin model, an independent director or Supervisory Board, regardless of the hierarchical relationship that these services have with the executive management of the company.	X		II.5. & II.6.
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 Board, 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 of 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		0.3., II.2. & II.36.
II.5.2. Members of the Remuneration Committee or alike, shall be independent from the Members of the Board of Directors and include at least one member with knowledge and experience in matters of remuneration policy.	X		II.38. & II.39.
II.5.3. Any natural or legal person which provides or has provided, over the past three years, services to any structure subject to the Board of Directors, to the Board of Directors of the company or that has to do with the current consultant to the company shall not be recruited to assist the Remuneration Committee. This recommendation also applies to any natural or legal person who has an employment contract with or provides services to said persons.		X	II.39.
II.5.4. All the Committees shall draw up minutes of the meetings held.	X		II.7.
III.1.1. 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		III.16.
III.1.2. 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		III.16. www.bes.pt/ir
III.1.3. Companies shall advocate the rotation of auditors after two or three terms, depending on whether they have four or three year mandates, respectively. Their continuance beyond this period must be based on a specific opinion of the Supervisory Board formally considering the conditions of auditor independence and the benefits and costs of replacement.	NA		III.18.

CMVM Recommendations	Adopted	Non Adopted	BES Report
III.1.4. The external auditor must, within its powers, verify the implementation of remuneration policies and systems, the efficiency and functioning of internal control mechanisms and report any shortcomings to the company's supervisory body.	X		III.17.
III.1.5. The company shall not recruit the external auditor, or any entities in a parent-subsidiary relationship with them or belonging to the same network, for services other than audit services. Where recruiting such services is called for, these should not exceed 30% of the total value of services rendered to the company. The hiring of these services must be approved by the supervisory body and must be expounded in the Annual Corporate Governance Report.	X		III.17.
IV.1. Where deals are concluded between the company and shareholders with qualifying holdings, or entities with which same are linked in accordance with Article 20 of the Securities Code, such deals shall be carried out in normal market conditions.	X		III.11.
IV.1.2. Where deals of significant importance are undertaken with holders of qualifying holdings, or entities with which same are linked in accordance with Article 20 of the Securities Code, such deals shall be subject to a preliminary opinion from the supervisory body. The procedures and criteria required to define the relevant level of significance of these deals and other conditions shall be established by the supervisory body.		X	III.13.

0.3. Overall assessment

The company may also make an overall assessment on the degree of adoption of recommendation groups related to each other by topics.

BES Corporate Governance Structure



Auditor: KPMG e Associados SROC, S.A.
Supervision Authorities: Banco de 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, corporate governance report, accounts and distribution of earnings for each financial year.

The management of Banco Espírito Santo 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.14).

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 Corporate Governance Committee was created in December 2010 and consists of 3 independent non-executive directors. It has advisory functions concerning the assessment of the corporate governance model and the performance of the members of the Board of Directors, and the identification and assessment of potential candidates with the necessary qualifications to exercise functions as member of the Board of Directors (see II.16).

The function of internal supervision body within BES is attributed to the Audit Committee of the Board of Directors, which is composed of 3 independent non executive 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 2010, the Board of Directors considered that 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) was adequate and presented no relevant constraints.

0.4. Recommendations that are not followed by BES and the reason for the existing deviation

When the corporate governance structure or practices differ from the CMVM's Recommendations or other Corporate Governance Codes to which the company is subject or has voluntarily adopted, the company shall make clear which parts of each Code have not been complied with or which the company considers not to be applicable, the reasons and other relevant remarks thereto and also explicitly refer where a description of these circumstances may be found in the Report.

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, with an indication of the recommendations that are not fully applicable.

CMVM Recommendations		Reason for the deviation	BES Report
I.4.	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.	I.8.
II.1.5.1.	The remuneration of the members of the Board of Directors shall be aligned with the long-term interests of the shareholders. Furthermore, the remuneration shall be based on performance assessment and shall discourage excessive risk taking.	BES follows the entire II.1.5.1. Recommendation on the remuneration of the members of the Board of Directors, except for recital (v), which refers that up to the end of their mandate the Executive Directors shall hold the company shares that were allotted to them by virtue of the variable remuneration schemes. In fact, BES's remuneration policy does not provide for any rule on the retention of shares received by way of variable remuneration.	II.32.
II.2.5.	The company shall expound its policy concerning portfolio rotation on the Board of Directors, including the person responsible for the financial portfolio, and report on same in the Annual Corporate Governance Report.	BES does not have a policy on portfolio rotation on the Board of Directors as it believes that such policy is contrary to the interests of the Bank and weakens the focus on the pursuance of its objectives.	II.3.
II.5.3.	Any natural or legal person which provides or has provided, over the past three years, services to any structure subject to the Board of Directors, to the Board of Directors of the company or that has to do with the current consultant to the company shall not be recruited to assist the Remuneration Committee. This recommendation also applies to any natural or legal person who has an employment contract with or provides services to said persons.	In 2010 the Remuneration Committee commissioned from Mercer Ltd, an independent consultancy firm, a survey which was taken as the basis for the proposals on BES's remuneration policies submitted to the 2010 Annual General Meeting. Said consultancy firm provides additional services to BES in the area of human resources.	II.39.
IV.1.2.	Where deals of significant importance are undertaken with holders of qualifying holdings, or entities with which same are linked in accordance with Article 20 of the Securities Code, such deals shall be subject to a preliminary opinion from the supervisory body. The procedures and criteria required to define the relevant level of significance of these deals and other conditions shall be established by the supervisory body.	Under the terms of the General Law on Credit Institutions and Financial Companies, the granting of credit to holders of qualifying holdings is always subject to the approval of each specific operation by a qualified majority of at least three thirds of the members of the Board of Directors and the favourable opinion of BES's Audit Committee. There is no formal extension of this rule to other deals of significant importance.	III.13.
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.	This recommendation is not applicable as BES adopts the Anglo-Saxon governance model and not the dualist model. Therefore BES does not have an Executive Board of Directors nor a General and Supervisory Board.	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.	This recommendation is not applicable as BES adopts the Anglo-Saxon governance model and not the dualist model. Therefore BES does not have a General and Supervisory Board.	NA
III.1.3.	Companies shall advocate the rotation of auditors after two or three terms, depending on whether they last four or three years respectively. Their continuance beyond this period must be based on a specific opinion where the supervisory body formally considers the conditions of auditor independence and the benefits and costs of replacement.	This recommendation is not applicable as the external auditors are currently serving their third mandate. The continuance beyond this period, and the issuance of a specific opinion supporting this continuance can only be determined after the end of the current mandate.	NA

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.
- PhD in Law (Legal and Economic Sciences).
- University Full Professor (1980-2007).
- Chairman of the Board of the European *Institute of the Lisbon University* Law School (1980-2010).
- Practicing lawyer and jurisconsult.
- Specialist lawyer in Tax and European Law.
- Member of the Lisbon Science Academy (Economy Section)

Fernão de Carvalho Fernandes Thomaz (Vice-Chairman)

- Graduate in Law (Legal Sciences) from the Law School of the Lisbon University.
- 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 with a master's degree from the Portuguese Catholic University ("UCP").
- Postgraduate degree in Taxation from the *Instituto Superior de Gestão*.
- Assistant lecturer at the UCP Law School since September 1999.
- Legal Advisor to the Board of Directors of ESCOM – Espírito Santo Commerce, S.A. since October 2005

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 2010 the Chairman of the Board of the General Meeting was paid a monthly remuneration of EUR 1,545.00, making a total of EUR 18,540.00 for the year. The Vice-Chairman received a monthly remuneration of EUR 1,030.00, making a total of EUR 12,360.00 and the Secretary a monthly remuneration of EUR 773.00, making a total of EUR 9,276.00.

I.4. Participation in the General Meeting

Indication of the prior notice for share-blocking for participation at the General Meeting

Decree-Law no. 49/2010, of 19 May, introduced new rules on participation in General Meetings. The main changes relative to the previous rules concerned the elimination of the share blocking requirement and the introduction of a rule concerning the record date.

According to the legislation currently in force, only shareholders who in the record date, corresponding to 0 hours (GMT) of the fifth working day preceding the date of the General Meeting of Shareholders, hold shares attributing them at least one vote, under the law and the Company's bylaws, and have declared it in writing to the Chairman of the Board of the General Meeting and the financial intermediary with whom they have opened an individual securities account, no later than the day preceding that date, 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

In case of suspension of the General Meeting, the same rules referred to in 1.4. apply. Hence only shareholders who in the record date, corresponding to 0 hours (GMT) of the fifth working day preceding the date of the General Meeting, hold shares attributing them at least one vote, under the law and the Company's bylaws, and have declared it in writing to the Chairman of the Board of the General Meeting and the financial intermediary with whom they have opened an individual securities account, no later than the day preceding that date, may attend and participate in the General Meeting.

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 existence of shares that do not confer voting rights

Indication of the statutory rules which envisage the existence of shares that do not confer voting rights or which enable voting rights over a certain number not to be counted, when issued by a single shareholder or shareholders related to the former.

There are no statutory rules envisaging the existence of shares that do not confer voting rights.

I.8. 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

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 represented, 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 share 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.

3. As Abstentions will not be accounted for in any of the resolutions.

The company has no systems in place for detaching voting rights from ownership rights.

I.9. 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 Chairman of the Board of the General Meeting is responsible for checking the authenticity of postal votes and for ensuring their confidentiality up to the time of voting.

I.10. 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 the Chairman of the Board of the General Meeting 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.11. 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 by the Chairman of the Board of the General Meeting at least three working days date prior to the date when the General Meeting is held.

I.12. Electronic voting

The exercise of voting rights via electronic means

The exercise of voting rights by electronic means is not allowed.

I.13. Access to the minutes of the General Meetings

Possibility of shareholders having access to excerpts from the Minutes of the General Meetings in the company's website within five days after the general meeting was held

Excerpts from the minutes of General Meetings are made available in the Company's website within five days of the meeting.

I.14. Historical Record with the resolutions of the General Meetings

Existence of a historical record on the company's website with the resolutions passed at the company's General Meetings, share capital represented and voting results referring to the previous three years.

An historical record of the resolutions passed at the company's General Meetings, share capital represented and voting results is available at BES's website (www.bes.pt/ir).

I.15. Representative of the Remuneration Committee in the General Meetings

Indication of the representative(s) from the Remuneration Committee present at General Meetings

At least one representative of the Remuneration Committee is present in every General Meeting. Ms. Rita Amaral Cabral, Mr. Daniel Proença de Carvalho and Mr. Jacques dos Santos were present in the General Meeting of April 6th, 2010, as representatives of the Remuneration Committee.

I.16. 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 and other senior officers.

The General Meeting decides annually on the remuneration policy of BES's corporate bodies, as described in point II.18.

Every year, the General 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.

Under the terms of the remuneration policy of BES's corporate bodies approved by the General Meeting of April 2010, the actual amount of the variable remuneration to be attributed to the members of the Executive Committee shall always depend on the Remuneration Committee's annual assessment of their performance. Under the terms of the law, the remuneration policy and performance assessment of BES's senior officers is conducted by the Board of Directors.

I.17. Intervention of the General Meeting on matters concerning the plan to attribute shares to members of the Board of Directors

Information of the intervention by the General Meeting on matters concerning the proposal on plans to attribute shares and/or stock options, or based on share price fluctuations, to members of the Board of Directors, supervisory body and other senior officers within the meaning of Article 248-B/3 of the Securities Code together with the details provided to the General Meeting for the purposes of correctly assessing said plans.

The plans to attribute shares and/or stock options to members of the Board of Directors and other BES senior officers are necessarily approved by the General Meeting, which also approves the corresponding regulations.

The following plans coexisted during 2010:

a) the Share Based Incentive System (SIBA), approved by the General Meeting in 2000, which was terminated in 2008, with the last series maturing at the end of 2010;

b) the Variable Remuneration Plan (PPRV 2008-2010), approved by the General Meeting in 2008, 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. This plan, which is not a plan to allocate shares of stock options, terminates in April 2011.

Both plans applied to the members of BES's Executive Committee and the employees of BES Group.

Following the approval at the beginning of 2010 of CMVM's Corporate Governance Code, and of a set of Bank of Portugal regulations on the remuneration of the corporate bodies and certain employees of credit institutions, the General Meeting of April 2010 approved a new remuneration structure for the members of BES's Executive Committee, which includes:

a) an annual deferred remuneration, consisting of a variable remuneration paid in kind through attribution of three blocks of shares with payment deferred over a period of three years;

b) a medium-term variable remuneration payable through attribution of stock options that may only be exercised three years after the date of attribution;

c) The options must be exercised at maturity, definitively expiring when not exercised on that date.

This medium term variable remuneration was also approved for certain categories of BES senior officers, namely General Managers, Advisors to the Board of Directors and Coordinating Managers.

Pursuant to these approvals, the General Meeting of April 2010 also approved two "Variable Remuneration Plans based on Financial Instruments", which contain the respective regulations and all general conditions of application. No remunerations were attributed in 2010 under these plans, which will be implemented for the first time in 2011. The plans are available for consultation at www.bes.pt/ir.

I.18. Intervention of the General Meeting on the retirement benefit plan of the members of the Board of Directors

Information of the intervention by the General Meeting on matters concerning the approval of the main features of the retirement benefit system as enjoyed by the members of the Board of Directors, supervisory body and other senior officers, within the meaning of Article 248-B/3 of the Securities Code.

The regulation on the members of BES's Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability is approved by the General Meeting.

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, to the effect that the total pension reaches one hundred per cent of the last annual gross remuneration.

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 the sum of the fixed annual remuneration and the variable remuneration received by the Board member in question in the year immediately preceding the year of retirement, deducted of any annual pension paid by any other social security system, as well as of the seniority payments received by that Board member. The variable remuneration shall correspond to at least the amount of the average variable remuneration received in the last four years by the Board member in question at retirement date.

The complementary retirement or survivor's pension benefits paid by the company shall be updated annually in accordance with the global percentage of increase of the remuneration of the Board members in active service, such as established by the Remuneration Committee; however the update rate may never be lower than the rate of change of the consumer price index or higher than twice that rate.

The current version 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 was approved by the General Meeting of Shareholders held on April 6th, 2010.

I.19. Existence of a statutory provision that envisages the maintenance or elimination of the statutory provision providing for the limitation of the number of votes

Existence of a statutory provision that envisages a duty to submit, at least every five years, to a resolution by the General Meeting, the maintenance or withdrawal of the statutory provision providing for the limitation of the number of votes that may be held or exercised by a single shareholder individually or together with other shareholders.

There is no statutory provision foreseeing the limitation of the number of votes that may be held or exercised by a single shareholder individually or together with other shareholders.

I.20. Changes in company control or in the composition of the Board of Directors

Indication of the defensive measures that instigate an immediate and serious asset erosion in the company in case of transfer of control or changes to the composition of the Board of Directors.

No such measures exist.

I.21. Change in agreements in case of change in company control

Important agreements to which the company is a party and that come into force, are changed or terminate 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 virtue of other legal requirements.

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.22. Agreements providing for compensation

Agreements between the company and the Board of Directors and senior officers, within the meaning of article 248/B/3 of the Securities Code, that provide for compensation if they resign or are made redundant without due cause 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)
Bruno Bernard Marie Joseph de Laage de Meux (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
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
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
Jean-Yves José Hocher
Antônio Bornia
Marc Olivier Tristan Oppenheim

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)

II.2. Other committees with management or supervision responsibilities

Identification and composition of specialised 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

Corporate Governance Committee

On December 6th, 2010, the Board of Directors approved the creation of the Corporate Governance Committee. The committee is an internal body of the Board of Directors with advisory functions, consisting of three independent directors who are not members of the Executive Committee. The main purpose of the Corporate Governance Committee is to reinforce the efficiency of the Board of Directors, making sure that all its decisions are based on all relevant elements and that they are not conditioned by possible conflicts of interest. The Corporate Governance Committee has the following members:

Isabel Maria Osório de Antas Mégre de Sousa Coutinho (Chairman)
Nuno Maria Monteiro Godinho de Matos
José de Albuquerque Epifânio da Franca

The Corporate Governance Committee has the following responsibilities:

a) monitor compliance with the guiding principles of BES Group's corporate governance policy;

b) express an opinion, at its own initiative or at the request of the Board of Directors, on national or international guidelines on corporate governance, viewing their possible integration into BES Group's corporate governance model and/or the improvement of this model;

c) draw up an annual report that contains a description of its activities during the year, an assessment of the functioning of the Company's corporate governance structure, as well as its opinion on the Company's internal rules and procedures and principles and practices of conduct, and on the performance of the Board of Directors *vis-à-vis* the established objectives;

d) verify at all times that the independence requirements of the Company's corporate bodies are complied with, in accordance with the applicable legal and regulatory provisions;

e) analyse and issue an opinion on the "Corporate Governance Report" prior to the date of approval of the Company's Annual Report;

f) inform the Board of Directors about any situations or events of with it is aware, that in its opinion represent cases of non-compliance with the established corporate governance rules and practices.

Concerning its assessment duties, the Corporate Governance Committee has the following responsibilities:

a) support and advise the Board of Directors on the filling of vacancies occurred within the Board, namely by evaluating the profile of each candidate in terms of qualifications, expertise and experience;

b) examine the Board of Directors' policy on the selection and appointment of senior officers;

c) implement, in cooperation with the Company's internal structures, a programme intended to acquaint newly appointed directors with the organisation and its activities, as well as with their responsibilities and duties as members of the Board of Directors;

d) determine which areas require the upgrading of the qualifications and expertise of the Company's directors, and make an annual proposal on the subject;

Several other committees have been created with the aim of monitoring directly the performance of specific business areas:

Business Units Monitoring Committees:

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, with *Banco Espírito Santo de Investimento do Brasil*, and with other units of BES Group abroad.

This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, António José Baptista do Souto, Jorge Alberto Carvalho Martins, José Maria Espírito Santo Silva Ricciardi, Joaquim Aníbal Brito Freixial de Goes and Amílcar Carlos Ferreira de Morais Pires.

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.

This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, Jorge Alberto Carvalho Martins, Joaquim Aníbal Brito Freixial de Goes and João Eduardo Moura da Silva Freixa.

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.

This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, José Manuel Pinheiro Espírito Santo Silva, Jorge Alberto Carvalho Martins and Amílcar Carlos Ferreira de Morais Pires.

d. International

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.

This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, José Manuel Pinheiro Espírito Santo Silva, António José Baptista do Souto, José Maria Espírito Santo Silva Ricciardi, Pedro José de Sousa Fernandes Homem and Amílcar Carlos Ferreira de Morais Pires.

Group-Wide Committees:

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.

This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, 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 and João Eduardo Moura da Silva Freixa.

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.

This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, 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, Joaquim Aníbal Brito Freixial de Goes, Pedro José de Sousa Fernandes Homem, Amílcar Carlos Ferreira de Morais Pires and João Eduardo Moura da Silva Freixa.

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.

This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, António José Baptista do Souto, Jorge Alberto Carvalho Martins, José Maria Espírito Santo Silva Ricciardi, Jean-Luc Louis Marie Guinoiseau, Joaquim Aníbal Brito Freixial de Goes, Amílcar Carlos Ferreira de Morais Pires and João Eduardo Moura da Silva Freixa.

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.

Committee: Ricardo Espírito Santo Silva Salgado, António José Baptista do Souto, Jorge Alberto Carvalho Martins and Amílcar Carlos Ferreira de Morais Pires.

e. Sustainability Committee

The Sustainability Committee defines BES Group's Sustainability Plan, monitors and supports its implementation, and reports on these activities to the Executive Committee.

This Committee is formed by the following members of the Executive Committee: António José Baptista do Souto, Rui Manuel Duarte Sousa da Silveira, Joaquim Aníbal Brito Freixial de Goes and Jean-Luc Louis Marie Guinoiseau.

II.3. Organisational chart, distribution of duties and list of non-delegable subject matters

Organisational structure or functional chart relating to the distribution of powers and duties among the various corporate bodies, committees and/or departments within the company, including information on the scope of delegated powers, particularly with regard to the delegation of day-to-day management of the company, or distribution of functions among the members of management and supervisory bodies, and a list of non-delegable matters and powers actually delegated

a) Organisational structure or functional chart relating to the distribution of powers and duties among the various corporate bodies, committees and/or departments within the company:

b) information on the scope of delegated powers, particularly with regard to the delegation of day-to-day management of the company, or distribution of functions among the members of management and 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 Assets and Liabilities Committee (ALCO). 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, International Premium Unit, 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, Sustainability.

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), Sustainability.

Rui Manuel Duarte Sousa da Silveira

Current areas of responsibility:
Legal Affairs, Internal Audit, and Security Coordination Departments, Corporate Office.

Member of the following Committees:
Assets and Liabilities (ALCO), Sustainability.

Joaquim Aníbal Brito Freixial de Goes

Current areas of responsibility:
Strategic Marketing, Individual Clients 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, Sustainability.

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, Monetisation of Corporate Credit, Management Control (shared with Ricardo Espírito Santo Salgado), and ES Research; ensures coordination with BES Vida, BES Finance, BES Cayman, Bank Espírito Santo International, Ltd (BESIL), BIC International Bank Ldt (BIBL), BES Beteiligungs, GmbH and Avistar.

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 full 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.

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 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

a) 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.

b) 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.

II.4. Activity undertaken by the Audit Committee

Reference to the inclusion in the annual reports on the activities undertaken by the General and Supervisory Board, the Financial Matters Committees, the Audit Board and the Supervisory Board of a description of the supervisory activity, indicating any restraints found, and to the disclosure of these reports on the website of the company, together with the accounts reporting documents.

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 (www.bes.pt/ir), together with the accounts reporting documents.

II.5. Internal control and risk management systems

Description of the internal control and risk management systems within the company, particularly with regard to financial reporting and the functioning and effectiveness of the system.

Internal control system

Banco Espirito Santo has in place an effective and documented 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 various 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 management system

At BES Group, the risk function is organised in such a way as to cover the credit, market, liquidity, interest rate, exchange rate, operational, and compliance risks.

The main units dedicated to the prevention of risks within the 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 5 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 harmonising 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 reports functionally to the Audit Committee, regardless of its hierarchical relationship with the Executive Committee. It 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;
- 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;
- monitoring the implementation of the Code of Conduct of BES Group employees.

The Internal Audit Department reports functionally to the Audit Committee, regardless of its hierarchical relationship with the Executive Committee. It is responsible for assessing 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 regulatory texts that ensure the standardisation of prevention, control and safety procedures, and issuing and publishing communications and circular letters on matters pertaining to its specific sphere of intervention;

- 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.6. Responsibility of the Board of Directors for the company's internal control and risk management systems

Responsibility of the management and supervisory bodies in establishing and operating the company's internal control and risk management systems, and also in assessing said system's functioning and adaptation to the company's requirements.

BES's Board of Directors, through its Executive Committee, is responsible for establishing and maintaining an adequate and effective internal control system. This implies not only defining the system's underlying principles and objectives, which must be incorporated into the Bank's strategy and policies, but also making sure that they are complied with by all the employees, and that at all times BES Group has the necessary competences and resources to conduct its activity in strict compliance with the internal control system.

The Executive Committee is also responsible for the establishment and maintenance of a solid risk management system, which, within the framework of an adequate overall control environment, and alongside an efficient information and communication system and an effective monitoring process, guarantee the adequateness and effectiveness of BES's internal control system. To this end, the Executive Committee defines the objective risk profile, establishing global and specific limits for exposures, and approves the procedures required to monitor these exposures, thus ensuring that the limits it has established are complied with.

The Audit Committee, as BES's supervisory body, is responsible for assessing the functioning of the internal control system, and particularly of the risk control, compliance and internal audit functions within this system, as well as for assessing the system's adaptation to the Company's needs. The Audit Committee shall also issue an annual statement expressing its opinion on the adequacy and efficacy of the internal control system in light of the requirements established by Bank of Portugal Notice no. 5/2008, except with regard to the part of the system underlying the process of preparation and disclosure of the financial information, which is the subject of an opinion to be issued by BES's statutory auditor.

II.7. 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, the Corporate Governance Committee Regulation, and the General Meeting Regulation, which are all disclosed at www.bes.pt/ir. 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.8. Chairman of the Board of Directors

If the Chair of the management body has executive powers, indication of the procedures for coordinating the work of non-executive members in order to ensure that his decisions are independent and informed.

Non Applicable – the Chairman of the Board of Directors does not have executive powers.

II.9. Major risks to which the Company is exposed in pursuing its business activity

Identification of the major economic, financial and legal risks to which the company is exposed in pursuing its business activity.

In pursuing its business activity BES is subject to the following major risks:

Credit risk

Credit risk is the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligations to the Bank.

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, share prices or commodity prices.

Interest Rate Risk

Interest Rate Risk lies in the exposure of a bank's financial situation to adverse movements in interest rates.

Liquidity Risk

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

Operational and compliance risk

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.

II.10. Powers of the Board of Directors

Powers of the Board of Directors, particularly as regards resolutions on capital increase.

The Board of Directors is responsible for exercising the broadest powers of management and representation of the company and for performing all necessary acts as may be required and convenient in the pursuit of the activities comprising its object, namely:

a) managing the company's business and performing all acts and operations pertaining to its object that do not fall within the specific responsibility of its other corporate bodies;

b) actively and passively representing the company in and out of court, with the powers to withdraw, compromise or enter a plea in any suits and to sign arbitration agreements;

c) deciding on the issue of bonds and other securities as permitted by law;

d) buying, selling or in any way disposing of or encumbering rights pertaining to shareholdings and movable and immovable assets;

e) establishing the company's administrative and technical organisation and its internal rules of operation;

f) appointing legal or other proxies with any powers that it sees fit, including those of subrogation;

g) co-opting replacements for directors permanently prevented from fulfilling their duties, with co-opted members' term of office lasting until the end of the period for which the replaced directors were elected, without prejudice to ratification thereof by the next General Meeting of Shareholders;

h) exercising any other powers invested in it by law or the General Meeting of Shareholders.

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.11. Portfolio rotation on the Board of Directors

Information on portfolio rotation on the Board of Directors, including the person responsible for the financial portfolio, and the rules applicable to the appointment and replacement of members of the management and supervisory bodies.

There is no policy on portfolio rotation on the Board of Directors.

II.12. Meetings of the management and supervisory bodies

Number of meetings held by the management and supervisory bodies as well as reference to the minutes of said meetings.

In 2010 BES' Board of Directors held 7 meetings, the Executive Committee 79 meetings, and the Audit Committee 10 meetings. The number of meetings indicated for the Executive Committee and Audit Committee concerns the formal meetings held exclusively by each of these bodies.
Minutes are drawn up of all the meetings held by each of the Company's corporate bodies

II.13. Meetings of the Executive Committee

Number of meetings held by the Executive Committee or by the Executive Board of Directors, as well as reference to the drawing up of the minutes of those meetings and whenever applicable, the submission of same with the convening notices to the Chair of the Board of Directors, the Chair of the Supervisory Board or of the Audit Committee, the Chair of the General and Supervisory Board and the Chair of the Financial Matters Committee.

In 2010 the Executive Committee held 79 meetings. All the meetings of the Executive Committee were regularly convened, and the respective minutes were submitted to the Chairman of the Board of Directors and to the Audit Committee.

II.14. Identification of the executive and non executive members of the Board of Directors and independence criteria

Distinction between executive and non executive members and among these, differentiating those members that would comply if the incompatibility rules were to be applied (Article 414-A/1 of the Companies Code, except for item /b and the independence criteria provided for in article 414/5, both of the Commercial Companies Code).

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 Board members who qualify as independent are the Chairman of the Board of Directors (Alberto de Oliveira Pinto), the three members of the Audit Committee (José Pena, Luís Daun e Lorena and João Faria Rodrigues), and the three members of the Corporate Governance Committee (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 II.15 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.

Identification of Board Members and independence criteria

Board Member	Date of birth	Nationality	Executive Committee	Independent	Reason for not independent
Alberto de Oliveira Pinto	26/06/1932	Portuguese	No	Yes	
Ricardo Espírito Santo Salgado	25/06/1944	Portuguese	Yes	No	Executive
Bruno de Laage de Meux	20/08/1951	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 Espírito Santo 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 Fernandes Homem	19/07/1947	Portuguese	Yes	No	Executive
Luís Daun e Lorena	11/10/1944	Portuguese	No	Yes	
Ricardo Espírito Santo	04/11/1958	Portuguese	No	No	Executive Board Member of BESI Brasil
José Pena	05/11/1940	Portuguese	No	Yes	
Amílcar Morais Pires	30/05/1961	Portuguese	Yes	No	Executive
Nuno Godinho de Matos	31/10/1949	Portuguese	No	Yes	
João Freixa	24/06/1956	Portuguese	Yes	No	Executive
Michel Goutorbe	16/11/1956	French	No	No	Board Member or contract with shareholder Crédit Agricole, S.A.
Pedro Amaral	27/11/1968	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	
Jean-Yves Hocher	24/08/1955	French	No	No	Board Member or contract with shareholder Crédit Agricole, S.A.
Antônio Bornia	22/11/1935	Brazilian	No	No	Board Member or contract with shareholder Banco Bradesco, S.A.
Marc Olivier Tristan	24/01/1967	French	No	No	Board Member or contract with shareholder Crédit Agricole, S.A.

Shareholder/Bondholder	Securities	Securities held as of 31/12/2009	Transactions in 2010				Securities held as of 31/12/2010
			Date	Acquisitions	Disposals	Unit Price (EUR)	
Ricardo Espírito Santo Salgado	BES Shares	1,261,840	01/03/2010	58,727		3.67	
			03/03/2010	30,000		3.68	
			26/04/2010	1,000		3.55	
			23/12/2010	50,000		2.97	
			29/12/2010		17,234	10.00*	1,384,333
	Fiduprivate shares	20					20
José Manuel Espírito Santo	BES Shares	359,645	04/02/2010	10,000		3.92	
			29/12/2010		12,637	10.00*	357,008
	Acções Fiduprivate	20					20
António Souto	BES Shares	51,212					
			29/12/2010		12,637	10.00*	38,575
	Bonds BES 3.75% 19/01/12		14/05/2010	1		50,000.00	1
	Bonds BES DUE 5.625% Jun 2014	1					1
	Bonds ES Invest PLC 23/12/2014	100					100
Jorge Martins	BES Shares	145,020					
			29/12/2010		12,635	10.00*	132,385
	Bonds BES DUE 5.625% Jun 2014					50,000.00	5
Aníbal Oliveira	BES Shares	800,000	03/02/2010	10,000		4.09	810,000
	Bonds BES Finance 2035	200					200
	Bonds BES DUE 5.625% Jun 2014		23/12/2010	6		44,625.00	6
	Bonds BES Finance 02/07/2014		16/09/2010	200		720.00	
			16/09/2010	200		714.99	400
Manuel Espírito Santo	BES Shares	2,484					2,484
José Maria Espírito Santo Ricciardi	BES Shares	30,634					
			29/12/2010		8,845	10.00*	21,789
Jean-Luc Guinoiseau	BES Shares	116,770	08/03/2010	6,230		3.97	
			29/12/2010		12,637	10.00*	110,363
Rui Silveira	BES Shares	14,952					
			29/12/2010		12,637	10.00*	2,315
Joaquim Goes	BES Shares	73,940	03/03/2010	27,500		3.69	
			29/12/2010		12,635	10.00*	88,805
	Bonds BES Finance 2035	160					160
	Bonds BES Subord 2008 1st S	45	24/11/2010		45	999.80	0
Pedro Fernandes Homem	BES Shares	12,635					
			29/12/2010		12,635	10.00*	0
	Bonds BES DUE 5.625% Jun 2014	20	20/01/2010		20	50,000.00	0
	Bonds BES Finance 2039	2,866	29/01/2010		2,140	698.50	726
			08/03/2010	3,232		700.22	3,958
			08/04/2010		3,232	699.64	726
			17/05/2010		726	696.85	0
	Bonds BES Due 3.875% 2015		21/01/2010	10		50,000.00	10
Ricardo Espírito Santo	BES Shares	66,466	01/02/2010	4,000		4.26	
			05/04/2010	5,000		3.59	
			29/12/2010		25,466	10.00*	50,000
Amílcar Morais Pires	BES Shares	42,889	09/03/2010	10,000		3.76	
			29/12/2010		12,638	10.00*	40,251
	Bonds BES Due 3.875% 2015		12/11/2010			50,000.00	5
	Bonds BES DUE 5.625% Jun 2014		30/11/2010			50,000.00	5
José Pena	Bonds BES Finance 2035	60					60
	Bonds Finance 6.25% 17/05/11		10/06/2010	50		1,000.00	50
	Bonds BES PP DPB Nov.09					1,000.00	380
João Freixa	BES Shares	30,000	21/05/2010	19,000		3.03	
			27/05/2010		30,000	3.12	
			28/05/2010	11,000		3.17	30,000
	Bonds BES Finance 17/05/2011	30	17/05/2011				30

Shareholder	Shares	Shares held as of 31/12/2009	Transactions in 2010				Shares held as of 31/12/2010
			Date	Acquisitions	Disposals	Unit price/EUR	
António Marques	BES Shares	13,154	29/12/2010		10,914	10.00*	2,240
Miguel Rio-Tinto	BES Shares	4,892					4,892
Bernardo Espírito Santo	BES Shares	8,684	29/12/2010		8,684	10.00*	0
Carlos Calvário	BES Shares	32,692	29/12/2010		6,415	10.00*	26,277
Eduardo Moradas	BES Shares	0					0
Eugénio Quintais Lopes	BES Shares	11,621	29/12/2010		2,858	10.00*	8,763
Francisco Santos	BES Shares	30,076	15/04/2010		11,392	4.07	
			02/09/2010		10,000	3.50	
			29/12/2010		8,684	10.00*	0
Isabel Almeida	BES Shares	37,264	29/12/2010		23,333	10.00*	13,931
João Martins Pereira	BES Shares	22,525	29/12/2010		6,079	10.00*	16,446
João Mello Franco	BES Shares	31,006	29/12/2010		5,734	10.00*	25,272
Jorge Lopes da Silva	BES Shares	19,324	29/12/2010		6,079	10.00*	13,245
José Pinto Ribeiro	BES Shares	23,124	29/12/2010		6,124	10.00*	17,000
Lourenço Vieira de Campos	BES Shares	2,042	29/12/2010		2,042	10.00*	0
Luis Rodeia	BES Shares	4,687	29/12/2010		2,009	10.00*	2,678
Manuel Freitas	BES Shares	19,785	29/12/2010		6,415	10.00*	13,370
Miguel Carvalho	BES Shares	13,967	16/04/2010		10,702	4.02	
			29/12/2010		3,265	10.00*	0
Paulo Padrão	BES Shares	6,229	03/12/2010	2,000		2.95	
			29/12/2010		3,675	10.00*	4,554
Pedro Cudell	BES Shares	8,437	29/12/2010		8,437	10.00*	0
Rui Raposo	BES Shares	5,196	29/12/2010		4,491	10.00*	705
Rui Guerra	BES Shares	24,521	29/12/2010		3,266	10.00*	21,255

*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.15. Criteria for assessing the independence of the members of the Board of Directors

A description of the legal and regulatory rules and other criteria that have been used as a basis for assessment of the independence of its members carried out by the Board of Directors.

The Corporate Governance Committee has confirmed the independence of all the other members qualified as independent directors, as follows:

Non Executive Members of the Board of Directors who are members of the Audit Committee

Pursuant to the Companies Code (Art. 423-B - 3, 4 and 5), the members of Banco Espírito Santo's Audit Committee are subject to scrutiny with regard to their independence and to the non existence of incompatibilities with the holding of that position.

Under these provisions, the assessment of independence must take as a reference the concept established in Article 414 (5) of the Companies Code, and the incompatibilities with the holding of that position are those indicated in Article 414-A of the Companies Code (making exception to the provisions of its sub-paragraph 1-b).

In order to collect relevant information allowing the Board of Directors to assess the referred situations, a questionnaire is drawn up that contains questions about the circumstances upon which the Companies Code makes independence conditional, and about the incompatibilities established in the same code. Every year copy of this questionnaire is sent to each of the members of the Executive Committee, who must personally reply to the questions, sign the questionnaire and subsequently return it to the Board of Directors.

Other non executive members of the Board of Directors (Chairman of the Board of Directors and members of the Corporate Governance Committee)

The other non executive Directors of Banco Espírito Santo are not directly subject to the system of assessment of independence and prohibition of incompatibilities which the Companies Code establishes for the members of the Audit Committee.

However, CMVM Regulation no. 1/2010, which applies to BES, requires the discrimination in the Annual Corporate Governance Report of the non executive board members that would comply, if these were applied to them, with the incompatibility rules (Article 414-A/1 of the Companies Code (except for item /b) and the independence criteria (Article 414/5, also of the Companies Code).

In order to collect the relevant information allowing the Board of Directors to assess the referred situations, a questionnaire was drawn up that contains questions about the circumstances upon which the Companies Code makes independence conditional, and about the incompatibilities established in the same code. This questionnaire was sent to each of the other non executive members of the Board of Directors who were indicated as independent directors in the 2009 Corporate Governance Report, so that it could be personally replied to, signed and returned the Board of Directors.

II.16. Selection process of non executive board members

A description of the selection rules for candidates for non executive member positions and the way in which such rules ensure that executive members refrain from interfering in the selection process

The Corporate Governance Committee is responsible for supporting and advising the Board of Directors on the filling of vacancies occurred within the Board (see point II.2 of this report), namely by evaluating the profile of each candidate in terms of qualifications, expertise and experience.

Although the General Meeting may freely elect the members of BES's Board of Directors, the intervention of the Corporate Governance Committee provides further guarantee that the executive board members have no influence on the selection process of the members of the management body.

II.17. Description of the activity of the non executive board members

Reference to the fact that the company's annual management report includes a description on the activity carried out by non executive members and possible constraints that may be detected.

The annual management report includes a description of the activity carried out by the non executive directors (see Point 1.5 of BES's management report).

II.18. 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 first appointment and the date of the end of mandate.

Alberto Alves de Oliveira Pinto (Chairman)

Academic qualification: Graduated in Economic and Financial Sciences from Instituto Superior de Ciências Económicas e Financeiras (Lisbon).

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 31/12/2010: 0
First appointment: February 2006
Mandate ends in: 2011

Ricardo Espírito Santo Silva Salgado (Vice-Chairman)

Academic qualification: 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 31/12/2010: 1,384,333
First appointment: September 1991
Mandate ends in: 2011

Bruno Bernard Marie Joseph de Laage de Meux (Vice-Chairman)

Academic qualification: Graduated from the École des Hautes Études Commerciales (H.E.C.), with an MBA from INSEAD.

Professional activities carried out during the last five years: Member of the Board of Directors and of the strategy committee of Crédit Agricole S.A., and deputy secretary general of the Crédit Agricole National Federation since 2006. Appointed Vice-Chairman of Crédit Agricole S.A. in March 2010, in charge of Regional Caixas, International Retail Banking and Payment Systems. Appointed member of the Board of Directors of Banco Espírito Santo in April 2010, to replace Jean Frédéric de Leusse, with responsibility for a new portfolio (Specialised Financial Services - Consumer Credit, Leasing and Factoring) since December 2010.

No. of shares held on 31/12/2010: 0
First appointment: Abril 2010
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 31/12/2010: 357,008
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., 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., Espírito Santo Overseas, LTD, and Chairman of the Board of Directors of Angra Moura – Sociedade de Administração de Bens, S.A..

No. of shares held on 31/12/2010: 38,575
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: Executive member of the Board of Directors of Banco Espírito Santo.

No. of shares held on 31/12/2010: 132,385
First appointment: July 1993
Mandate ends in: 2011

Aníbal da 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 31/12/2010: 810,000
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. Chairman of Rioforte Investments, S.A. since 2008 and Chairman of Rioforte (Portugal) S.A. since 2010.

No. of shares held on 31/12/2010: 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 General and Supervisory Board since July 2006.

No. of shares held on 31/12/2010: 21,789
First appointment: March 1999
Mandate ends in: 2011

Jean-Luc Louis Marie Guinoiseau

Academic qualification: Graduated in Higher Economic Studies from the 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 31/12/2010: 110,363
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: a practising lawyer and legal consultant to the Higher Council of Espírito Santo Group. Executive member of the Board of Directors of Banco Espírito Santo since 2000.

No. of shares held on 31/12/2010: 2,315
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 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 31/12/2010: 88,805
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 31/12/2010: 0
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 31/12/2010: 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 31/12/2010: 50,000
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 31/12/2010: 0
First appointment: May 2003
Mandate ends in: 2011

Amílcar Carlos Ferreira 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 31/12/2010: 40,251
First appointment: March 2004
Mandate ends in: 2011

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: practising lawyer.

No. of shares held on 31/12/2010: 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. In august 2010 was appointed non executive member of the Board of Directors of Unicre – Instituição Financeira de Crédito, S.A., in representation of Banco Espírito Santo.

No. of shares held on 31/12/2010: 30,000
First appointment: September 2006
Mandate ends in: 2011

Michel Joseph Paul 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 31/12/2010: 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 Beteiligungs GmbH since 2006 and member of the Board of Directors of BES since 2008.

No. of shares held on 31/12/2010: 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 31/12/2010: 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, and member of BES's 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 31/12/2010: 0
First appointment: March 2008
Mandate ends in: 2011

José de Albuquerque 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. Executive education in Management of Research and Technology Based Innovation at the MIT (USA), in 1994. Full professor at the Electronics and IT Department of the IST (currently on extended sabbatical). 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, of which he was CEO and Chairman from 1997 to 2008. In 2007, when Chipidea was acquired by MIPS Technologies Inc. (Mountain View, California), a NASDAQ listed company, João Epifânio da Franca became a member of the Board of Directors of MIPS and remained Chairman of the Board of Directors of the Portuguese subsidiary (Chipidea Microelectrónica, S.A.) until September 2008. Member of the General Board of ISG, of the Strategy Council of IST's Engineering and IT Department, and of the Advisory Board of IST's Engineering and Industrial Management. Member of BES's Board of Directors since 2008.

No. of shares held on 31/12/2010: 0
First appointment: March 2008
Mandate ends in: 2011

Jean-Yves José Hocher

Academic qualification: Graduated from the Institut National Agronomique Paris-Grignon and the Ecole Nationale du Génie Rural, des Eaux et Forêts.

Professional activities carried out during the last five years: Appointed general manager of Crédit Agricole Assurance and CEO of Companhia Predica in 2006. In 2008 was appointed manager of Specialised Financial Services of Crédit Agricole S.A., Chairman of Sofinco (now Crédit Agricole Consumer Finance) and Vice-Chairman of Crédit Agricole, S.A., in charge of Asset Management and Private Banking. In March 2007 was appointed member of the Board of Directors of BES, to replace Michel Villatte, having renounced this position in May 2008. In April 2010 was again appointed member of the Board of Directors of BES to replace Bernard Delas. In December 2010 was appointed Executive Chairman of CACIB, in charge of Asset Management and Private Banking.

No. of shares held on 31/12/2010: 0
First appointment: March 2007
Mandate ends in: 2011

Antônio Bornia

Academic qualification: Secondary education.

Professional activities carried out during the last five years: Joined Banco Bradesco in 1952. In 1999 was appointed Vice-Chairman of the Board of

Directors of Banco Bradesco, maintaining its position until now. In April 2010 was appointed member of the Board of Directors of BES, to replace Luiz Trabuco Cappi.

No. of shares held on 31/12/2010: 0
First appointment: April 2010
Mandate ends in: 2011

Marc Olivier Tristan Oppenheim

Academic qualification: Graduated from the École Supérieure des Sciences Économiques et Commerciales (ESSEC).

Professional activities carried out during the last five years: appointed manager of the Retail Market area and member of the General Committee of Crédit Lyonnais in 2007. Manager of International Retail Banking and member of the Executive Committee of Crédit Agricole since June 2010. In July 2010 was appointed non executive member of the Board of Directors of Banco Espírito Santo, to replace Bernard Octave Mary.

No. of shares held on 31/12/2010: 0
First appointment: July 2010
Mandate ends in: 2011

II.19. 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 (Vice-Chairman)

Holds no positions in other companies

Ricardo Espírito Santo Silva Salgado (Vice-Presidente)

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 (Vogal)
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)
ES Tech Ventures, SGPS, S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros, SGPS, 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, S.A. (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 - SGPS, 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)

Bruno Bernard Marie Joseph de Laage de Meux (Vice-Chairman)

Corporate positions held in companies outside BES Group

Board of Directors
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
BFORBANK (Member)
Cariparma e Piacenza S.P.A. (Member)
Cedicam (Member)
Crédit Agricole Creditor Insurance (Member)
Crédit Agricole Egypt, S.A.E. (Vice – Chairman)
Crédit du Maroc (Member of the Supervisory Council)
Emporiki Bank (Member)
Fireca (Member)
LCL – Le Crédit Lyonnais (Member)
UBAF (Member)
Uni – Editions (Chairman)
Vegepolys (pôle du végétal spécialisé d`Angers) (Chairman)

Other positions
Crédit Agricole, S.A. (Member of the Executive Committee, Member of the General Management Committee, Deputy Chief Executive Officer in charge of Crédit Agricole Regional Banks, LCL, International Retail and Commercial Banking, Payment Systems and Specialised Financial Services: Consumer Credit, Leasing and Factoring)

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, SGPS, S.A. (Memberl)
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. (Memberl)
Banque Privée Espírito Santo, S.A. (Chairman)
Casa da Saudade – Administração de Bens Móveis e Imóveis, S.A. (Chairman)
ES Bankers (Dubai) Limited (Member)
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 de Seguros, S.A. (Member)
Fiduprivate – Sociedade de Serviços, Consultadoria, Administração de Empresas, S.A. (Chairman)
Ribeira do Marchante – Administração de Bens Móveis e Imóveis, 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

Board of Directors
Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (Chairman)

Fiscal Board
Agência de Desenvolvimento Regional de Entre-o-Douro e Tâmega (Chairman)
Instituto Empresarial do Tâmega (Chairman)

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 - SGPS, 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

Corporate positions held in companies outside BES Group

Board of Directors
Conselho Superior do Grupo Espírito Santo (Member)
Academia de Música de Santa Cecília (Non Executive Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Rioforte Investments, SA (Chairman)
Rioforte (Portugal), S.A. (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 (CEO)
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)
SODIM, SGPS, 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)
Espírito Santo Investment Holdings Limited (Member)

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)

Fiscal Board
Sporting Clube de Portugal (Vice-Chairman)
Sporting Sociedade Anónima Desportiva, SAD (Member)

Board of General Meeting
Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

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)
OBLOG – Consulting, S.A. (Chairman)

Rui Manuel Duarte Sousa da Silveira

A. Corporate positions held in companies of BES Group

Board of General Meeting
AVISTAR SGPS, S.A. (Chairman)
Banco Espírito Santo Cabo Verde, 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, SGPS, S.A. (Chairman)
Capital Mais – Assessoria Financeira, S.A. (Chairman)
ES Tech Ventures, SGPS, S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros, SGPS, S.A. (Chairman)
ESAF – Espírito Santo Gestão de Patrimónios, S.A. (Chairman)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A (Chairman)
OBLOG - Consulting, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
Sociedade de Administração de Bens Casa de Bons Ares, S.A. (Member)
Cimigest – SGPS, 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)
Esumédica – Prestação de Cuidados Médicos, S.A. (Chairman)
Europ Assistance – Companhia Portuguesa de Seguros, S.A. (Vice-Chairman)
Espírito Santo Saúde – SGPS, S.A. (Chairman)
TC Turismo Capital - SCR, S.A. (Chairman)
TF Turismo Fundos – SGFII, 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, SGPS, 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
Aman Bank for Commerce & Investment (Vice–Chairman)
AVISTAR SGPS, S.A. (Member)
Banco Espírito Santo do Oriente, S.A. (Member)
BES África, SGPS S.A. (Member)
ESAF – Espírito Santo Activos Financeiros, SGPS, S.A. (Member)
Espírito Santo Bank (EUA) (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors
Spinnaker Global Opportunity Fund Ltd. (Member)

Other positions
Advita – Associação para o Desenvolvimento de Novas Iniciativas para a Vida (Substitute Director)
Quinta Patiño (Chairman of Condominium Association)

Luis 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
Remuneration Committee
BES - Companhia de Seguros, S.A. (Chairman)
BES –Vida, Companhia de Seguros, S.A. (Chairman)

Ricardo Abecassis Espírito Santo Silva

A. Corporate positions held in companies of BES Group

Management Body
Board of Directors
AVISTAR SGPS, S.A. (Member)
Banco Espírito Santo de Angola, SA (Chairman)
Banco Espírito Santo de Investimento, S.A. (Vice-Chairman)
BES Finance Ltd (Member)
BES Investimento do Brasil S.A. (Member)
Espírito Santo Investimentos S.A. (Brasil) (Chairman)
Espírito Santo Bank (EUA) (Vice-Chairman)

Executive Committee
BES Investimento do Brasil S.A. (Chairman)
Espírito Santo Investimentos S.A. (Brasil) (Chairman)
Gespar Participações Ltda (Brasil) (Member)

Fiscal Board
Banco Espírito Santo do Oriente, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Management Body
Board of Directors
Agriways S.A. (Brasil) (Vice-Chairman)
Bradespar S.A. (Brasil) (Member)
Câmara Portuguesa de Comércio no Brasil (Vice-Chairman)
Europ Assistance (Brasil) (Member)
Espírito Santo Control S.A. (Member)
Espírito Santo International S.A. (Member)
Espírito Santo Property (Brasil) S.A.(Member)
Espírito Santo Resources Limited (Member)
Euroamerican Finance Corporation, Inc. (BVI) (Member)
Novagest Assets Management Ltd. (Member)
BHG S.A. – Brazil Hospitality Group (Brasil) (Member)
Monteiro Aranha S.A. (Brasil) (Member)
Pojuca S.A. (Brasil) (Chairman)
Rioforte Investment Holding Brasil S.A. (Member)
Ushuaia – Gestão e Trading International Limited (Member)

Executive Committee
2bCapital S.A. (Member)
Associação Espírito Santo Cultura (Brasil) (Member)
Companhia Agrícola Botucatu (Chairman)
ESAI – Espírito Santo Activos Imobiliários Ltda. (Brasil) (Member)
ESAP Brasil Agro-Pecuária Ltda. (Brasil) (Member)
ESAP - Espírito Santo Agro-Pecuária S.A. (Uruguai) (Member)
ESCAE Consultoria, Administração e Empreendimentos, Ltda. (Brasil) (Member)
ES Consultoria Ltda. (Brasil) (Partner, Member)
E.S. Holding Administração e Participações, S.A. (Brasil) (Chairman)
Pojuca Administração S.A. (Brasil) (Chairman)
Saramagos S.A. Empreendimentos e Participações (Brasil) (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 Morais Pires

A. Corporate positions held in companies outside BES Group

Board of Directors
AVISTAR SGPS, 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 Ltd (Member)
ESAF – Espírito Santo Activos Financeiros, SGPS, 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, SGPS, 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)

Nuno Maria Monteiro Godinho de Matos

Holds no positions in other companies

João Eduardo Moura da Silva Freixa

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
UNICRE – Instituição Financeira de Crédito, S.A. (Member, appointed by Banco Espírito Santo, S.A. under the terms of Article 390 (4) of the Companies Code)

Michel Joseph Paul Goutorbe

A. Corporate positions held in companies of BES Group

Board of Directors
ESAF – Espírito Santo Activos Financeiros, SGPS, S.A. (Member)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Member)
ES Tech Ventures, SGPS, 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)
Câmara de Comércio Luso-Francesa (Member)
Eurofactor Portugal - Sociedade de Factoring, S.A. (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, S.A. (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 (Singapura) (Member)

Jean-Yves José Hocher

Corporate positions held in companies outside BES Group

Board of Directors
Agro Paris Tech (Member)
Amundi Group (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
CA Assurances Italia Holding SPA (Member)
CACEIS (Member)
Crédit Agricole Assurances (Censeur)
Crédit Agricole Consumer Finance (Presidente)
Crédit Agricole Creditor Insurance (Member)
Crédit Agricole Leasing & Factoring (Member)
Emporiki Bank (Member)
Fonds de Garantie de Dépôts (Member of the Supervisory Board)
NEWEDGE Group (Vice-Chairman)

Pacifica (Board member, permanent representative of Crédit Agricole S.A.)
Predica (Vice-Chairman)

Board of General Meeting
Mouvement des Entreprises de France (MEDEF) (Member)

Other positions
CACIB (Crédit Agricole Corporate Investment Bank) (Chief Executive Officer)
Crédit Agricole, S.A. (Member of the Executive Committee, Member of the General Management Committee, Deputy Chief Executive Officer in charge of Asset Management and Private Banking)

Antônio Bornia

Corporate positions held in companies outside BES Group

Management Body
Board of Directors
Banco Bradesco S.A. (Vice-Chairman)
Banco Bradesco Europa S.A. (Vice-Chairman)
BBD Participações S.A. (Vice-Chairman)
Bradesco Leasing S.A. – Arrendamento Mercantil (Vice-Chairman)
Bradesco Securities, Inc. (Chairman)
Bradesco Securities UK Limited (Chairman)
Bradespar S.A. (Vice-Chairman)
Cidade de Deus – Companhia Comercial de Participações (Vice-Chairman)
Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (Vice-Chairman)

Deliberating Board
ABEL – Associação Brasileira das Empresas de Leasing (Chairman)
Caixa Beneficente dos Funcionários do Bradesco (Vice-Chairman)

Executive Committee
BBD Participações S.A. (Director, Vice-Chairman)
Cidade de Deus – Companhia Comercial de Participações (Director, Vice-Chairman)
Fundação Bradesco (Director, Vice-Chairman)
Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (Director, Vice-Chairman)
NCF Participações S.A. (Director, Vice-Chairman)
Nova Cidade de Deus Participações S.A. (Director, Vice-Chairman)
Top Clube Bradesco, Segurança, Educação e Assistência Social (Director, Vice-Chairman)

Directorship
Bradport – S.G.P.S. Sociedade Unipessoal, Lda (Director)

Board of the General Meeting
Fundação Bradesco (Vice-Chairman)

Other positions
Banco Bradesco S.A. (Member of the Remuneration Committee)

Marc Olivier Tristan Oppenheim

Corporate positions held in companies outside BES Group

Board of Directors
BSF Banque Saudi Fransi (Member)
Crédit Agricole Egypt, S.A.E. (Member)
Cariparma e Piacenza S.P.A. (Member)
Crédit du Maroc (Member of the Supervisory Board)
Emporiki Bank (Member)
Europay France (Member)
LCL Actions Monde (Member)

Other positions
Crédit Agricole, S.A. (Member of the Executive Committee & Head of International Retail and Commercial Banking)

II.30. Remuneration Policy

Description of the remuneration policy of the management and supervisory bodies, as provided for in article 2 of Law 28/2009 of 19 June.

Remuneration Policy

The Remuneration Committee, which is elected by the General Meeting, determines the remuneration of the members of BES's corporate bodies. Every year the Remuneration Committee submits to the General Meeting, for approval, a proposal setting out the remuneration policy of the corporate bodies.

Main points of the proposal submitted to the General Meeting of April 6th, 2010:

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.

The full text of the remuneration policy proposal, as approved by the General Meeting of April 6th, 2010, is available at www.bes.pt/ir.

The remuneration policy was approved in April 2010, and will be applied in 2011 with regard to the assessment of performance in 2010 and the determination of the variable component of the remuneration.

II.31. Individual remuneration paid to the members of the management and supervisory bodies

Indication of the amount of the annual remuneration paid individually to the members of the management and supervisory bodies of the company, including fixed and variable remuneration and as to the latter, mentioning the different components that gave rise to same, the part that has been deferred and that already paid.

2010 represents a year of transition concerning the remuneration of the corporate bodies, namely the remuneration of the executive directors. In fact, the amounts paid in 2010 to the members of the Executive Committee include payments relating to two different financial years: the variable component concerns the distribution of 2009 profits, while the fixed component relates to 2010, and translates the new remuneration policy approved by the Annual General Meeting of April 2010.

In 2010 the costs with fixed remunerations added of the share in the profits allocated to the members of the Executive Committee registered a reduction of 10%, with the share in the profits being reduced by 34%, as explained in Note 11 to the accounts, in Banco Espírito Santo's 2010 Annual Report.

The remuneration of the members of BES's Board of Directors follows the criteria referred in point II.30 above.

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, three are members of the Audit Committee, three are members of the Corporate Governance Committee and two (Ricardo Abecassis Espírito Santo Silva and Pedro Mosqueira do Amaral) hold executive positions in other companies of BES Group.

The remuneration paid to each of the members of the Board of Directors in 2010 is set out in the table below:

Members of the corporate bodies
(except members of the Executive Committee)

(EUR Thousand)

	BES			Total BES
	Fixed			
	Salary	Subsidies and other	Var.	
José Pena	246			246
Luís Daun e Lorena	246			246
João Faria Rodrigues	246			246
Total Audit Committee	**739**	**0**	**0**	**739**
Alberto Oliveira Pinto		185		185
Jean Fréderic de Leusse		4		4
Anibal de Oliveira		19		19
Manuel Fernando Espírito Santo		15		15
Michel Goutorbe		26		26
Nuno Godinho de Matos		42		42
Ricardo Abecassis Espírito Santo		19		19
Bernard Octave Mary		11		11
Pedro Amaral	134	26		160
José Epifânio da Franca		42		42
Isabel Sousa Coutinho		42		42
Total Other non executive Board Members	**134**	**431**	**0**	**565**
Paulo Manuel de Pitta e Cunha		19		19
Fernão de Carvalho Fernandes Thomaz		12		12
Nuno Miguel Matos Silva Pires Pombo		9		9
Total Board of the General Meeting	**0**	**40**	**0**	**40**
Daniel Proença de Carvalho		18		18
Rita Maria Lagos do Amaral Cabral		18		18
Joaquim Jesus Taveira Santos		18		18
Total Remuneration Committe	**0**	**54**	**0**	**54**
Total Corporate Bodies (excluding executive members)	**873**	**525**	**0**	**1,398**

Members of the Executive Committee

1. The amounts paid in 2010 to the members of the Executive Committee include payments relating to two different financial years: the variable component concerns the distribution of 2009 profits, while the fixed component relates to 2010, and translates the new remuneration policy approved by the Annual General Meeting of April 2010.

2. The new remuneration policy aims to reinforce the balance between the fixed and the variable components of the remuneration, in compliance with a set of community and national regulations (namely Recommendation no. 2009/384/CE, approved by the European Community on April 30th, 2009, Law 28/2009, of June 19th, and Bank of Portugal's Notice 1/2010).

3. 2010 thus represents a year of transition in terms of the remuneration of the corporate bodies.

4. In 2010 the costs with fixed remunerations added of the share in the profits allocated to the members of the Executive Committee registered a reduction of 10%, as explained in Note 11 to the accounts, in Banco Espírito Santo's 2010 Annual Report.

5. 2011 will be the first year of full application of the new remuneration policy at the level of remunerations paid. As shown in the table below, the total remuneration that will be paid in 2011 to the members of the Executive Committee will be reduced by 35% compared to the remuneration paid in 2010.

Members of the Executive Committee

(EUR Thousand)

	2010			Total BES	2011			Total BES	Change 2010/2011
	Fixed				Fixed				
	Salary	Subsidies and other	Var.		Salary	Subsidies and other	Var.		
Ricardo Espírito Santo Salgado	546	2	674	1,221	546	2	253	801	-34%
José Manuel Espírito Santo	461	2	564	1,026	461	2	212	674	-34%
António Souto	456	2	564	1,021	456	2	212	669	-34%
Jorge Martins	454	2	564	1,020	454	2	212	668	-35%
José Maria Espírito Santo Ricciardi	0	0	0	0	0	0	0	0	-
Jean-Luc Guinoiseau	450	2	564	1,016	450	2	212	664	-35%
Rui Silveira	454	2	564	1,020	454	2	212	668	-35%
Joaquim Goes *	453	35	564	1,052	453	2	212	667	-37%
Pedro Homem	452	1	564	1,017	452	1	212	665	-35%
Amilcar Morais Pires	452	2	564	1,019	452	2	212	667	-35%
João Freixa	452	2	564	1,018	452	2	212	666	-35%
Total Executive Committee	**4, 629**	**53**	**5,749**	**10,431**	**4,629**	**20**	**2,161**	**6,810**	**-35%**

* Joaquim Goes received in 2010 a 15 year service benefit of 32,419.84 euros

Other BES Group firms

(EUR Thousand)

	Fixed			Total
	Salary	Subsidies and other	Var.	
Ricardo Espírito Santo Salgado		3		3
José Manuel Espírito Santo		3		3
António Souto				0
Jorge Martins				0
José Maria Espírito Santo Ricciardi	330	684		1,014
Jean-Luc Guinoiseau				0
Rui Silveira				0
Joaquim Goes				0
Pedro Homem	42	4		46
Amilcar Morais Pires				0
João Freixa		2		2
Total Executive Committee	**372**	**684**		**1,068**

Deferred Remunerations (2012 - 2014)

(EUR Thousand)

	Deferred Cash (2012-2014)	Deferred Stock (2012-2014)	Subtotal	Deferred Options (2012-2014)
Ricardo Espírito Santo Salgado	127	127	253	130
José Manuel Espírito Santo	106	106	212	100
António Souto	106	106	212	100
Jorge Martins	106	106	212	100
José Maria Espírito Santo Ricciardi	0	0	0	100
Jean-Luc Guinoiseau	106	106	212	100
Rui Silveira	106	106	212	100
Joaquim Goes	106	106	212	100
Pedro Homem	106	106	212	100
Amilcar Morais Pires	106	106	212	100
João Freixa	106	106	212	100
Total Executive Committee	**1,080**	**1,080**	**2,161**	**1,130**

Notes: The Remunerations include only amounts effectively paid in 2010 and to be paid in 2011. The variable remuneration for 2011, which is determined on the basis of the net profit in 2010, was calculated by the Remuneration Committee in 2011 and is subject to final approval of the year's accounts.

In accordance with the remuneration policy approved in 2010, the Remuneration Committee also decided to defer the payment of 50% of the global remuneration of the Executive Committee, attributing a variable remuneration of EUR 2,161,000 with deferred payment in 2012, 2013 and 2014 (one third of the total in each year), subject to there being no structural deterioration in BES's economic and financial situation, and to attribute a Medium Term Variable Remuneration in the overall amount of EUR 1,130,000 consisting in the allocation of options on BES's shares which can only be exercised three years after their date of attribution (end of March 2014) and providing that the price of the BES shares has risen by at least 10% in the referred 3-year period, all in the following terms:

II.32. Information on the manner in which the remuneration is structured

Information on the manner in which the remuneration is structured so as to allow aligning the interests of the members of the board of directors with the long-term interests of the company as well as how it is based on the performance assessment and how it discourages excessive risk assumption.

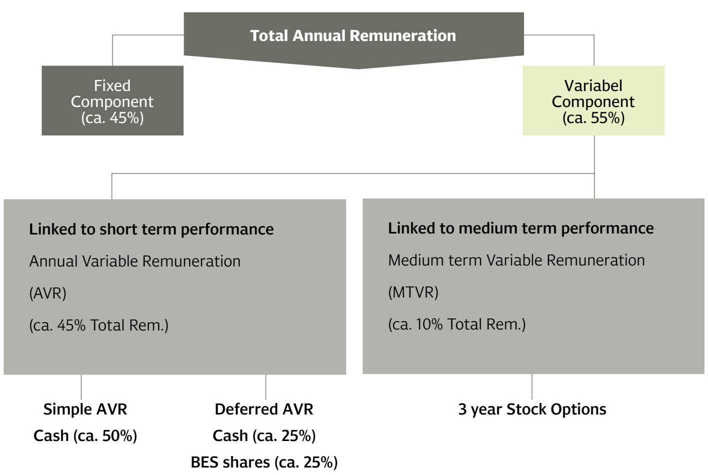
The remuneration of the non executive members of the Board of Directors only comprises a fixed component.

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.

This remuneration consists of a fixed and a variable component (see Point II.31 for the Remuneration Committee's decision concerning the year 2011).
The fixed component (consisting 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) shall be subject to the limits established by the Remuneration Committee and represent approximately 45% of the Total Annual Remuneration.

The General Meeting of April 2010 determined that the variable component established for 2010 (and payable in 2011) would be subject to an upper limit corresponding to 1.4% of the consolidated earnings of BES Group, notwithstanding the general limit set forth in Article 24 of the company's bylaws (2% of BES Group's consolidated net income).

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.



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 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, 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.

The options can only be exercised at maturity, definitively expiring when not exercised on that date.

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.

In addition to the above, the members of the Executive Committee 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. This Plan terminates in April 2011.

II.33. Remuneration of the executive members of the Board of Directors:

a) Variable component of the remuneration;

On this subject, please refer to point II.32. above.

b) The corporate bodies responsible for assessing the performance of executive members;

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.
In addition, the Corporate Governance Committee issues an Annual Report containing an assessment of the performance of the Board of Directors *vis-à-vis* the established objectives.

c) Criteria for performance assessment;

The assessment of the executive directors is 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 measures the net income 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.

d) Fixed and variable components of the remuneration;

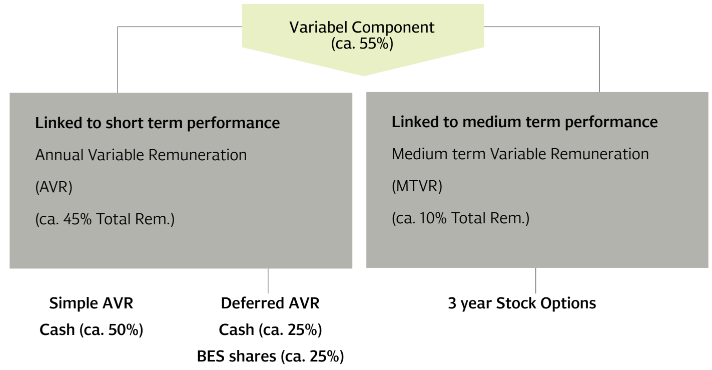
The variable component of the remuneration of the executive Board members is paid in the form of a share in the profits of the Company, which, as referred in point II.32, cannot exceed 2% of BES's consolidated net income for the financial year. In 2010 the executive Board members received a 1.23% share of BES's consolidated net income in 2009, corresponding to EUR 6,433,000.

e) Deferral of the variable component of the remuneration;

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, 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.

The Medium Term Variable Remuneration («MTVR») is linked to Medium Term Performance and will correspond to approximately 10% of the Total Annual Remuneration.



f) Payment 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 the attribution of the variable remuneration in shares

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 also 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.

The regulation of the Board of Directors forbids the performance of any agreements concerning the shares attributed to the members of the Executive Committee, including hedging contracts or other risk transfer contracts

h) Criteria for the attribution of the variable remuneration in options;

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.

i) Annual bonuses and other benefits;

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

j) Share in the profits;

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

l) Compensation;

No compensation has been paid or is owed to former members of the Executive Committee in relation to early contract terminations.

m) Compensation in case of dismissal without due cause;

Directors are dismissed by the General Meeting. There are no agreements in place that establish amounts to be paid in case of dismissal without due cause and therefore there is no need to envisage contractual restraints on compensation owed to BES directors due to dismissal without due cause.

n) Amounts paid by other Group companies;

The total amount paid in 2010 to members of BES's Board of Directors by other companies of BES Group was EUR 1,068,000.

o) Complementary pension benefits;

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 a 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, to the effect that the total pension reaches one hundred per cent of the last annual gross remuneration.

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 the sum of the fixed annual remuneration and the variable remuneration received by the Board member in question in the year immediately preceding the year of retirement, deducted of any annual pension paid by any other social security system, as well as of the seniority payments received by that Board member. The variable remuneration shall correspond to at least the amount of the average variable remuneration received in the last four years by the Board member in question at retirement date.

The complementary retirement or survivor's pension benefits paid by the company shall be updated annually in accordance with the global percentage of increase of the remuneration of the Board members in active service, such as established by the Remuneration Committee; however the update rate may never be lower than the rate of change of the consumer price index or higher than twice that rate.

The current version 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 was approved by the General Meeting of Shareholders held on April 6th, 2010.

p) Non-financial benefits;

There are no non-financial benefits attributed to the members of the Board of Directors.

q) Mechanisms to prevent contracts that call into question the grounds for the variable remuneration

The regulation of the Board of Directors forbids the performance of any agreements concerning the shares attributed to the members of the Executive Committee, including hedging contracts or other risk transfer contracts.

II.34. Remuneration of the non executive directors

Reference to the fact that the remuneration of the non executive directors does not include variable components.

Only the members of the Executive Committee of the Board of Directors earn a variable remuneration, which is set by the Remuneration Committee and approved by the General Meeting. All other members of the corporate bodies earn a fixed remuneration.

II.35. 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. Notifications can be addressed in any form.

f) Entity that investigates the notifications: depending on the matter in hand, the Audit Committee entrusts the investigation process to the Internal Audit Department or to the Compliance Department.

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 of conclusion of the investigation.

II.36. Identification of the members of the Corporate Governance Committee

Identification of members of those committees that have been constituted for the purposes of individual and overall performance assessment of the executive directors, consideration on the governance system that has been adopted by the company and the identification of potential candidates with the professional profile fitting the director position.

BES's Corporate Governance Committee has the following composition (see II.1 and II.16):

Isabel Maria Osório de Antas Mégre de Sousa Coutinho (Chairman)
Nuno Maria Monteiro Godinho de Matos
José de Albuquerque Epifânio da Franca

II.37. Number of meetings held by the committees

Number of meetings held by the committees that have been constituted for management and supervision during the period concerned, as well as reference to the minutes of said meetings.

The Executive Committee held 79 meetings and the Audit Committee 10 meetings. Minutes were drawn up of all these meetings.

II.38. Remuneration Committee

Reference to the fact that one member of the remuneration committee has knowledge and experience in remuneration policy issues.

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 is a partner and director in 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 (since 1993). He is a member of the Fiscal Board of ESAF – SGPS SA.

All the members of the Remuneration Committee have knowledge and experience in remuneration policy issues.

II.39. Independence of the members of the Remuneration Committee

Reference to the independence of natural or legal persons with an employment contract or providing services to the remuneration committee, as regards the Board of Directors as well as, when applicable, to the fact that these persons have an existing relation with the company consultant.

None of the members of the Remuneration Committee is a member of BES's Board of Directors or has any family connection with any of its members.

In 2010 the Remuneration Committee commissioned Mercer Ltd, an independent consultancy firm, to make 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. This survey which taken as the basis for the proposals on BES's remuneration policies submitted by the Remuneration Committee to the 2010 Annual General Meeting.

Said consultancy firm provides additional services to BES in the area of human resources.

III. Information and Auditing

III.1. Equity structure

The equity structure including those shares that are not admitted to trading, the different categories 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 does not have:

a) capital subscribed and not paid up or non-issued authorised capital;

b) convertible bonds, warrants and/or shares conferring special rights or privileges;

c) forms of exponentially increasing the influence of shareholders, or figures such as golden shares or priority shares;

d) shareholder agreements on the exercise of voting rights, as far as BES is aware;

e) shares carrying multiple voting rights;

f) limits on the exercise of voting rights;

g) statutory restrictions 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	Fixed	
	Nº of Shares	% Voting Rights
ESPIRITO SANTO FINANCIAL GROUP, S.A (Luxembourg)		
- directly	28,796,041	2.47%
- through BESPAR, SGPS, S.A (controlled by Espirito Santo Financial (Portugal), SGPS, S.A., fully owned by Espirito Santo Financial Group S.A)	466,666,666	40.00%
- through members of its Board of Directors and Supervisory Bodies	21,814	0.00%
- through companies controlled directly and indirectly and/or members of its Board of Directors and Supervisory Bodies	11,264,982	0.97%
Total attributable	506,749,503	43.44%
CRÉDIT AGRICOLE, S.A (França)		
- directly	126,076,650	10.81%
Total attributable	126,076,650	10.81%
BRADPORT, SGPS, S.A*		
- directly	70,583,333	6.05%
Total attributable	70,583,333	6.05%
SILCHESTER INTERNATIONAL INVESTORS LIMITED (UK)		
- directly	63,163,998	5.41%
Total attributable	63,163,998	5.41%
PORTUGAL TELECOM, SGPS, S.A		
- directly	30,585,108	2.62%
- through members of its Board of Directors and Supervisory Bodies	188,263	0.02%
Total attributable	30,773,371	2.64%

* Portuguese company fully owned by Banco Bradesco (Brasil)

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 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, 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.

No such control mechanisms exist.

III.8. Evolution of BES's share price

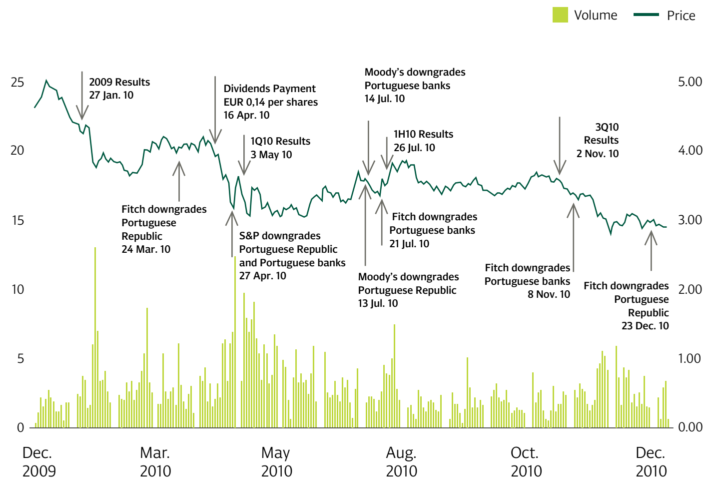
Description concerning the evolution of the issuer's share price and taking the following into account: a) The issuance of shares or other securities that entitle to subscription or acquisition of shares; b) The announcement of results; c) The dividend payment for each share category including the net value per share.

The uncertainty lived in Europe during 2010, which first originated in Greece and later spread on to Ireland, generated a climate of instability in the financial markets and a significant increase in aversion to risk on the part of investors. Concerns about the fiscal situation and high indebtedness levels of states in the periphery of the Euro Area led to an increase in volatility in the equity markets, and a considerable widening of credit spreads for public debt and financial institutions in these countries.

Investors' concerns with the Portuguese public accounts further deteriorated as from April, following Standard & Poor's two-notch downgrade (to A- from A+) of the Portuguese Republic's rating, which led to the downgrade of the rating of the Portuguese banks. This had an immediate impact on the Portuguese financial system, where the short-term financing was substantially reduced. Aversion to country risk continued to increase along the year, as the main rating agencies successively cut both sovereign and banks' ratings.

In this context, the PSI-20 and PSI Financials indices fell by 10.3% and 29.9%, respectively, in 2010, while the Stoxx 600 Banks index, which tracks the stock market performance of the 53 largest European banks, dropped by 11.6%. The BES share retreated by 37.0% in 2010, on the whole performing in line with its peers in Portugal and Spain. During the year the BES share fluctuated between a minimum of EUR 2,790 and a maximum of EUR 4,988 (closing prices), closing the year at EUR 2.88.

BES share price performance in 2010



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 2010, 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 policy

Description of the dividend distribution policy adopted by the company, including the dividend value per share distributed during the last three periods.

In drawing up the dividend distribution proposal to be submitted to the General Meeting, the criterion followed by the Board of Directors is to establish a balanced relation between financial strength (reinforcement of solvency ratios through the retention of earnings) and an adequate remuneration to shareholders.

The Board of Directors will submit to the General Meeting a proposal to pay a gross dividend per share of EUR 0.126, which corresponds to a dividend yield of 4.38% at year-end closing price and a pay-out ratio of 28.8%.

Dividend distribution in the last five years:

	Gross dividend (EUR)	Shares outstanding	Gross dividend per share (EUR)	Payout Ratio	
				Individual	Consolidated
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%*
2010	147,000,000	1,166,666,666	0.126	57.42%	28.8%

* 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.

As referred in point I.17 (see also II.33), the General Meeting of April 6th, 2010 approved two "Variable Remuneration Plans based on Financial Instruments", one applying to the members of BES's Executive Committee, and the other to the Bank's senior officers. No allocations were made in 2010 under these plans, which will be implemented for the first time in 2011.

III.11. Transactions between the company and members of the management and supervisory bodies, owners of qualified holdings, or companies in a control or group relationship.

A description of the main data on business deals and transactions carried out between the company and the members of the management or supervisory bodies, 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. Description of the business deals and transactions carried out between the company and owners of qualifying holdings outside normal market conditions.

A description of the main data on business deals and transactions carried out outside normal market conditions between the company and owners of qualifying holdings or entities under any type of relationship with the latter, as envisaged in article 20 of the Securities Code.

No such business deals and transactions exist.

III.13. Procedures and criteria applicable to the supervisory body when same provides preliminary assessment of the business deals to be carried out between the company and the owners of qualifying holdings.

A description of the procedures and criteria applicable to the supervisory body when same provides preliminary assessment of the business deals to be carried out between the company and the owners of qualifying holdings or entities under any type of relationship with the latter, as envisaged in article 20 of the Securities Code.

The granting of credit to members of the corporate bodies, where such is permitted, or to holders of qualifying holdings in BES, is always dependent upon the approval of each specific transaction by a qualified majority of at least three thirds of the votes of the members of the Board of Directors, and the favourable opinion of BES's Audit Committee. This rule has not been formally extended to other business deals of significant importance.

This rule applies to all credit institutions subject to supervision by the Bank of Portugal.

III.14. Statistical data on the business deals subject to preliminary opinion by the supervisory body.

A description of the statistical data (number, average and maximum values) on the business deals subject to preliminary opinion by the supervisory body.

In 2010 the Audit Committee only issued a preliminary opinion on a EUR 10 million loan extended to a company fully owned by a non executive member of the Board of Directors.

III.15. Audit Committee Activity Report

Indication of the availability on the company's website, of annual reports on the activity carried out by the general and supervisory board, the financial matters committee, the audit committee and the supervisory board, including constraints that might be encountered, as well as financial information documents.

The annual report on the activity carried out by the Audit Committee is available at www.bes.pt/ir.

III.16. 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, and replies directly to any requests for information made by shareholders, investors and analysts. It is also responsible for coordinating the information provided to the international rating agencies, and for BES's relationship with the Portuguese Securities Market Commission (CMVM).

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 investor.relations@bes.pt) is also used to answer or clarify questions addressed to BES.

Shareholders, investors and analysts may contact the Investor Relations Office to:

Elsa Santana Ramalho
Avenida da Liberdade, 195 – 11.º
1250-142 Lisboa

Tel. / Fax: (351) 21 359 7390 / (351) 21 359 7001
E-mail: investor.relations@bes.pt

Website: http://www.bes.pt/ir

III.17. Value of services provided by the external auditor / statutory auditor

Indication of the annual remuneration paid to the auditor and to other individuals or groups that belong to the same network supported by the company and/or by any legal person under a parent-subsidiary or group relationship with it and the percentage of the total amount paid for the following services:

a) *statutory account review services;*

b) *other reliability assurance services;*

c) *tax consultancy services;*

d) *other non audit services.*

A description of the auditor's independence safeguarding measures is required, should the auditor provide any of the services described in subparagraphs c) and d).

For the purposes of this information, the 'network' concept derives from the European Commission Recommendation No. C (2002) 1873 of 16th May.

The table below lists the services provided to BES Group by the external auditor/certified auditor and the remuneration paid for these services.

	2010	%	2009	%
Audit and legal review of the accounts service	2,303,896	41%	2,047,274	26%
Other services of audit/reliability guarantee related to the Official Account Audit function	1,567,367	28%	1,089,551	14%
1. Total Audit services	3,871,263	69%	3,136,825	40%
Tax consulting services	644,813	12%	514,470	7%
Other non-audit related services	1,067,122	19%	4,162,808	53%
2. Total other services	1,711,935	31%	4,677,278	60%
	5,583,198	100%	7,814,103	100%

In the table above, 'Other reliability assurance services' refer exclusively to the function performed by KPMG as the external auditor/statutory auditor (EA/SA) of BES Group, and therefore the amount paid for these services was added to the amount of fees paid for 'Audit and legal review of the accounts service' in order to calculate the total amount of the annual remuneration paid for auditing services provided by the EA/SA or other entities that belong to the same network or are under a parent-subsidiary or group relationship with it (the 'network' concept derives from the European Commission Recommendation No. C (2002) 1873 of 16th May).

Auditing services represented 69.3% of the total fees paid in 2010 to KPMG and related entities by BES Group in Portugal and in other countries. The other 30.7% concern tax consultancy services (11.6%) and other non audit services (19.1%), the latter mainly relating to technical support provided within the scope of the Basel II and Solvency II projects, other regulatory issues, the acquisition of a stake in Moza Bank (Mozambique) and also sustainability-related services.

The award to KPMG or related entities of non-audit services requested by BES Group entities is subject to previous assessment and approval by BES's Audit Committee, which to this end not only takes into account (i) the invoked operational and risk/return optimisation advantages of awarding these services to KPMG, but also (ii) confirms that the nature of the services to be provided and/or the amount of these services relative to the total amount of the annual fees paid by BES Group to KPMG does not affect the independence of KPMG as the external auditors/statutory auditors of BES Group, namely with regard to compliance with CMVM Recommendation III.1.5 set forth in its Corporate Governance Code.

In 2010, although the value of non-audit services exceeded the formal limit of 30% of the total value of services provided to the company, BES considered that the difference was not relevant - 0.6 percentage points, corresponding to EUR 53,000 out of a total of EUR 5.6 million - and therefore considered this Recommendation as complied with.

Responsibility for the means of safeguarding the independence of the EA/SA lies both with BES Group and with KPMG, and may be summed up as follows:

a. At BES Group level

Viewing compliance with the rules or recommendations on the independence of the EA/SA, BES's Audit Committee has defined a set of criteria that must be followed in the approval of non-audit services to be provided by KPMG to BES Group.

Accordingly, all proposals concerning the provision of tax 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 pre-established amount. However, the Audit Committee has also determined not only that it must obligatorily be informed of these automatically approved proposals, for ratification, on a quarterly basis, but also that all the proposals submitted by the EA/SA concerning the provision of non-audit services whose remuneration exceeds the pre-established limit and/or which, due to their 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 drawn up 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. To this end, the network concept deriving from the European Commission Recommendation No. C (2002) 1873 of 16th May was adopted.

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 the submission of any proposal to provide services to BES Group, KPMG's Global Lead Partner in charge of KPMG's professional relations with BES Group must ascertain if the services to be proposed meet, in terms of their nature and value, the pre-approval requirements for non-audit services, and where necessary, take the necessary steps in order to obtain assurance from the BES Group entity to which the proposal is addressed that the independence rules applicable to and adopted by BES Group 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.

III.18. Rotation of the external auditor / statutory auditor

Reference to the external auditor's rotation period

Not applicable in 2010, as the current term of office of the external auditor/ statutory auditor only ends in 2011.

Appendix I: List of all transactions carried out by the senior managers in 2010

Board Members

Name	Trade nº	Transaction	Nº of Shares	Unit price	Market	Trade date
	237		2,173	2.98		
	242		327	2.98		
	243		2,173	2.98		
	244		327	2.98		
	246		2,156	2.975		
	247		117	2.975		
	248		225	2.975		
	251		2	2.975		
	253		2,500	2.97		
	269		2,500	2.97		
	270		1,000	2.97		
	273		1,500	2.97		
	291		81	2.98		
	292		2,000	2.98		
	293		64	2.98		
	316		2,500	2.97		
Ricardo Espírito Santo Salgado	380	purchase	542	2.975	Exch.	23/12/2010
	381		1,500	2.975		
	382		458	2.975		
	388		1,486	2.972		
	392		1,014	2.972		
	432		2,255	2.97		
	433		245	2.97		
	447		832	2.965		
	448		1,668	2.965		
	522		5,000	2.97		
	581		2,500	2.97		
	600		1,200	2.965		
	601		600	2.965		
	604		700	2.965		
	612		2,500	2.964		
	658		1,615	2.965		
	659		226	2.965		
	665		2,907	2.965		
	666		220	2.965		
	667		2,887	2.965		

Senior Officers

Name	Trade nº	Transaction	Nº of Shares	Unit price	Market	Trade date
	232		2,124	3.503		
	233		499	3.502		
	234		304	3.5		
Francisco Santos	235		585	3.5		
	236	purchase	1,265	3.5	Exch.	02/09/10
	237		1,000	3.5		
	238		3,446	3.5		
	239		500	3.5		
	240		237	3.5		
	241		40	3.5		

Appendix II: Remuneration Policy of the 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 is a partner and director in 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 (since 1993). He is a member of the Fiscal Board of ESAF – SGPS SA.

None of the members of the Remuneration Committee is a member of BES's Board of Directors or has any family connection with any of its members.

A representative of the Remuneration Committee is present in every General Meeting.

d) External consultants

The external consultant chosen to assist the Remuneration Committee in the definition of the remuneration policy of BES's Corporate Bodies in 2010 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 per 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 represents 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.

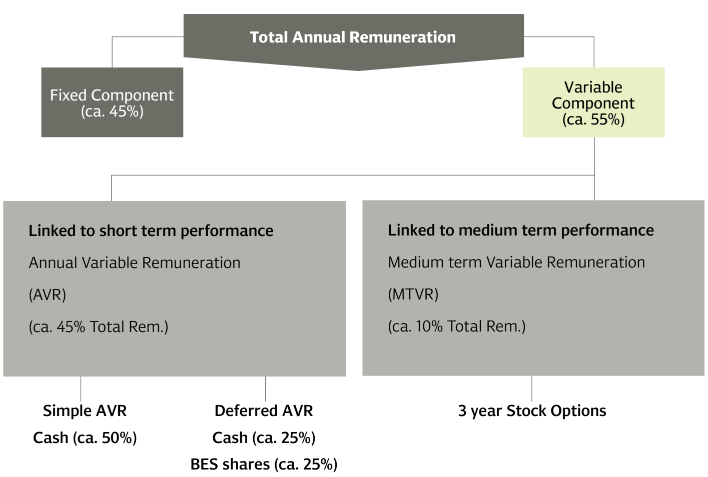
The variable component established for 2011 is subject to an upper limit corresponding to 1.4% of the consolidated earnings of BES Group.

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 2011 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 (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 are set out in a specific Regulation, which was approved by the 2010 Annual General Meeting.

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 three-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 measures the net income 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.

This rule is included in the Internal Regulation of the Board of Directors.

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 award of such bonuses and/or share in the 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 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, to the effect that the total pension reaches one hundred per cent of the last annual gross remuneration.

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 the sum of the fixed annual remuneration and the variable remuneration received by the Board member in question in the year immediately preceding the year of retirement, deducted of any annual pension paid by any other social security system, as well as of the seniority payments received by that Board member. The variable remuneration shall correspond to at least the amount of the average variable remuneration received in the last four years by the Board member in question at retirement date.

The complementary retirement or survivor's pension benefits paid by the company shall be updated annually in accordance with the global percentage of increase of the remuneration of the Board members in active service, such as established by the Remuneration Committee; however the update rate may never be lower than the rate of change of the consumer price index or higher than twice that rate.

The current version 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 was approved by the General Meeting of Shareholders held on April 6th, 2010.

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 2010 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.

i. Members of the corporate bodies (with the exception of the Executive Committee)

(EUR Thousand)

	BES			Total BES
	Fixed			
	Salary	Subsidies and other	Var.	
José Pena	246			246
Luís Daun e Lorena	246			246
João Faria Rodrigues	246			246
Total Audit Committee	**739**	**0**	**0**	**739**
Alberto Oliveira Pinto		185		185
Jean Fréderic de Leusse		4		4
Anibal de Oliveira		19		19
Manuel Fernando Espírito Santo		15		15
Michel Goutorbe		26		26
Nuno Godinho de Matos		42		42
Ricardo Abecassis Espírito Santo		19		19
Bernard Octave Mary		11		11
Pedro Amaral	134	26		160
José Epifânio da Franca		42		42
Isabel Sousa Coutinho		42		42
Total Other non executive Board Members	**134**	**431**	**0**	**565**
Paulo Manuel de Pitta e Cunha		19		19
Fernão de Carvalho Fernandes Thomaz		12		12
Nuno Miguel Matos Silva Pires Pombo		9		9
Total Board of the General Meeting	**0**	**40**	**0**	**40**
Daniel Proença de Carvalho		18		18
Rita Maria Lagos do Amaral Cabral		18		18
Joaquim Jesus Taveira Santos		18		18
Total Remuneration Committe	**0**	**54**	**0**	**54**
Total Corporate Bodies (excluding executive members)	**873**	**525**	**0**	**1,398**

ii. Members of the Executive Committee

1. The amounts paid in 2010 to the members of the Executive Committee include payments relating to two different financial years: the variable component concerns the distribution of 2009 profits, while the fixed component relates to 2010, and translates the new remuneration policy approved by the Annual General Meeting of April 2010.

2. The new remuneration policy aims to reinforce the balance between the fixed and the variable components of the remuneration, in compliance with a set of community and national regulations (namely Recommendation no. 2009/384/EC, approved by the European Community on April 30th, 2009, Law 28/2009, of June 19th, and Bank of Portugal's Notice 1/2010.

3. 2010 thus represents a year of transition in terms of the remuneration of the corporate bodies.

4. In 2010 the costs with fixed remunerations added of the share in the profits allocated to the members of the Executive Committee registered a reduction of 10%, as explained in Note 11 to the accounts, in Banco Espírito Santo's 2010 Annual Report.

5. 2011 will be the first year of full application of the new remuneration policy at the level of remunerations paid. As shown in the table below, the total remuneration that will be paid in 2011 to the members of the Executive Committee will be reduced by 35% compared to the remuneration paid in 2010.

Members of the Executive Committee

(EUR Thousand)

	2010			Total BES	2011			Total BES	
	Fixed				Fixed				
	Salary	Subsidies and other	Var.		Salary	Subsidies and other	Var.		
Ricardo Espírito Santo Salgado	546	2	674	1,221	546	2	253	801	-34%
José Manuel Espírito Santo	461	2	564	1,026	461	2	212	674	-34%
António Souto	456	2	564	1,021	456	2	212	669	-34%
Jorge Martins	454	2	564	1,020	454	2	212	668	-35%
José Maria Espírito Santo Ricciardi	0	0	0	0	0	0	0	0	-
Jean-Luc Guinoiseau	450	2	564	1,016	450	2	212	664	-35%
Rui Silveira	454	2	564	1,020	454	2	212	668	-35%
Joaquim Goes *	453	35	564	1,052	453	2	212	667	-37%
Pedro Homem	452	1	564	1,017	452	1	212	665	-35%
Amilcar Morais Pires	452	2	564	1,019	452	2	212	667	-35%
João Freixa	452	2	564	1,018	452	2	212	666	-35%
Total Executive Committee	**4,629**	**53**	**5,749**	**10,431**	**4,629**	**20**	**2,161**	**6,810**	**-35%**

* Joaquim Goes received in 2010 a 15 year service benefit of 32,419.84 euros

Other BES Group Firms

(EUR Thousand)

	Other BES Group firms			Total Others
	Fixed			
	Salary	Subsidies and other	Var.	
Ricardo Espírito Santo Salgado		3		3
José Manuel Espírito Santo		3		3
António Souto				0
Jorge Martins				0
José Maria Espírito Santo Ricciardi	330	684		1 014
Jean-Luc Guinoiseau				0
Rui Silveira				0
Joaquim Goes				0
Pedro Homem	42	4		46
Amilcar Morais Pires				0
João Freixa		2		2
Total Executive Committee	**372**	**684**		**1 068**

Deferred Remunerations (2012 - 2014)

(EUR Thousand)

	Deferred Cash (2012-2014)	Deferred Stock (2012-2014)	Subtotal	Deferred Options (2012-2014)
Ricardo Espírito Santo Salgado	127	127	253	130
José Manuel Espírito Santo	106	106	212	100
António Souto	106	106	212	100
Jorge Martins	106	106	212	100
José Maria Espírito Santo Ricciardi	0	0	0	100
Jean-Luc Guinoiseau	106	106	212	100
Rui Silveira	106	106	212	100
Joaquim Goes	106	106	212	100
Pedro Homem	106	106	212	100
Amilcar Morais Pires	106	106	212	100
João Freixa	106	106	212	100
Total Executive Committee	**1,080**	**1,080**	**2,161**	**1,130**

Notes: The Remunerations include only amounts effectively paid in 2010 and to be paid in 2011. The variable remuneration for 2011, which is determined on the basis of the net profit in 2010, was calculated by the Remuneration Committee in 2011 and is subject to final approval of the year's accounts.

In accordance with the remuneration policy approved in 2010, the Remuneration Committee also decided to defer the payment of 50% of the global remuneration of the Executive Committee, attributing a global remuneration of EUR 2,161,000 with deferred payment in 2012, 2013 and 2014 (one third of the total in each year), subject to there being no structural deterioration in BES's economic and financial situation, and to attribute a Medium Term Variable Remuneration in the overall amount of EUR 1,130,000 consisting in the allocation of options on BES's shares which can only be exercised three years after their date of attribution (end of March 2014) and providing that the price of the BES shares has risen by at least 10% in the referred three-year period, all in the following terms:

Appendix III : Remuneration policy of the 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 19th 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)
Bruno Bernard Marie Joseph de Laage de Meux (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
Amilcar Carlos Ferreira de Morais Pires
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
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
Michel Jacques Mathieu
Antônio Bornia
Marc Olivier Tristan Oppenheim

d) External consultants

The external consultants recruited in 2009 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 75% 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.

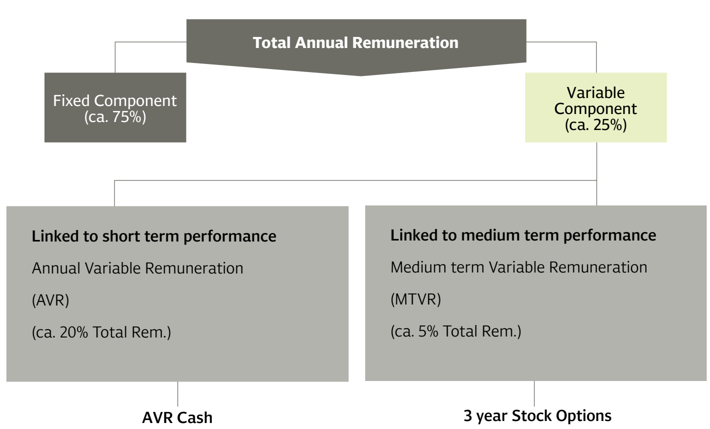
The variable component established for 2011 corresponds to 25% of the average Total Annual Remuneration, although it may reach up to 50% of individual total remuneration.

c) Balanced remuneration

The fixed component shall represent on average approximately 75% of the total remuneration, the remaining 25% 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 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 5% 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.

Considering that the forecast situation in 2011 calls for budget restrictions on salaries, the Board of Directors decided that there would be no Medium Term Variable Remuneration in 2011.

C) Regulation on the attribution of Options

The rules on attribution of stock options are set out in a specific Regulation, which was approved by the 2010 Annual General Meeting.

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 t o generate revenues setting it against the operating costs incurred;
- Stock market capitalisation - an 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.

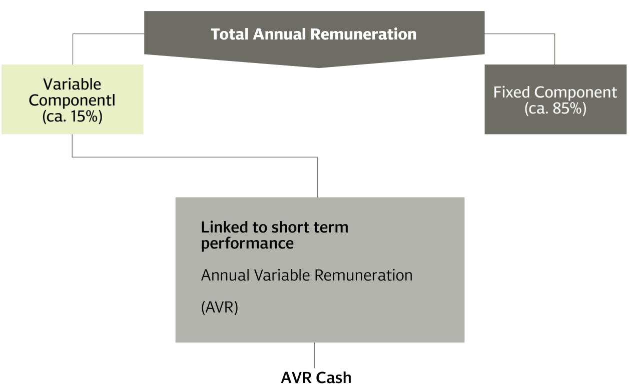
The variable component established for 2010 corresponds to 15% of the average Total Annual Remuneration, although it may reach up to 30% of individual total remuneration.

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 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) Criteria for performance assessment

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 referred in this description of the remuneration policy, 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 all employees in the banking sector are since 2011 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 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%.

6. Amounts paid in 2010 to BES's Senior Officers

(euros)

	Senior Officers		
	General Managers	Advisors	Coordinating Managers
Nº of employees	3	17	33
Total fixed remuneration	555,447	2,558,223	4,148,125
Total variable remuneration	193,772	843,844	1,304,536
Change	26%	25%	24%

(euros)

	Management		
	Managers	Assistant Managers	Deputy Managers
Nº of employees	13	9	13
Total fixed remuneration	987,194	535,901	595,892
Total variable remuneration	234,808	73,778	117,062
Change	19%	12%	16%

[1]SAMS - medical and healthcare services for banking sector employees.

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 BOARD OF DIRECTORS

Recomendation	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 to the management body itself, 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.
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		

Recomendation	Implemented	Not implemented	Reasons for non implementation
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, including non financial 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		
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.

Recomendation	Implemented	Not implemented	Reasons for non implementation
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 V.2. of the Circular Letter).		X	Due to budgetary reasons, the Board of Directors decided not to attribute stock options to BES's senior officers in 2011.
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 on 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 small 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 weight 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		

ASSESSMENT OF THE REMUNERATION POLICY

Recomendation	Implemented	Not implemented	Reasons for non implementation
The institution's control functions, working in coordination, shall at least once a year conduct an independent internal assessment of the remuneration policy (see VI.1. of the Circular Letter).	X		
The assessment referred to in the preceding paragraph shall include an analysis of the remuneration policy of the institution and its implementation in light of the recommendations of this Circular Letter, and in particular of their effects on the risk, capital and liquidity management of the institution (see VI.2. of the Circular Letter).	X		
The control functions shall submit to the management body and to the general meeting, or, where one exists, to the remuneration committee, a report on the results of the analysis referred to in VI.1., identifying the measures required to correct any shortfalls in light of the present recommendations (see VI.3. of the Circular Letter).	X		

FINANCIAL GROUPS

Recomendation	Implemented	Not implemented	Reasons for non implementation
The parent company of a financial group subject to supervision by the Bank of Portugal based on its situation on a consolidated basis shall ensure that all its branches, including the branches abroad and offshore establishments, implement remuneration policies that are consistent with each other and take as a reference the present recommendation (see VII.1. of the Circular Letter).		X	Bearing in mind the geographical diversification of their headquarters and significant differences among the applicable regulations and policies on remuneration, all the companies of Espírito Santo Financial Group (ESFG) have undertaken a coordination effort viewing compliance with this Recommendation. For this reason, the control functions are not at this stage prepared to make a first assessment of these remuneration policies' level of consistency among each other, and therefore these Recommendations are considered as not complied with. Nevertheless, ESFG seeks to ensure consistency and uniformity among the remuneration policies of its various companies.
It must be ensured that these recommendations are adopted with respect to the total remunerations paid to every employee by the financial institutions and non financial institutions comprised within the same financial group (see VII.2. of the Circular Letter).		X	
The control functions of the parent company, working in coordination, shall at least once a year make an assessment of the remuneration practices of the branches abroad and offshore establishments, and in particular of the effect of these practices on the risk, capital and liquidity management of the institution, in light of the recommendations of this Circular Letter (see VII.3. of the Circular Letter).		X	
The control functions shall submit to the management body of the parent company and to the general meeting, or, where one exists, to the remuneration committee, a report on the results of the assessment referred to in the previous paragraph, identifying the measures required to correct any shortfalls in light of the present recommendations (see. VII.4. of the Circular Letter).		X	

Statement of the Audit Committee

Comissão de Auditoria
Av. da Liberdade, 195-8º
1250-142 Lisboa

STATEMENT OF THE AUDIT COMMITTEE
on the content of the Corporate Governance Report for the year ended 31 December 2010

To the Shareholders of

Banco Espírito Santo, S.A.,

The Audit Committee has reviewed the Corporate Governance Report of **Banco Espírito Santo, S.A.**, which is part of the 2010 Annual Report of the bank, in order to assess whether or not it includes all the information on the structure and corporate governance practices of the bank as specified in article 245.º-A of the Portuguese Securities Code (Código de Valores Mobiliários).

As required in paragraph 5 of article 420.º, by remission of article 423.º-F, both of the Portuguese Companies Code (Código das Sociedades Comerciais), the Audit Committee attests that the Corporate Governance Report referred to in the preceding paragraph includes all the abovementioned information for the year ended 31 December, 2010 as required and applicable to **Banco Espírito Santo, S.A.**.

Lisbon, February 25, 2011

The Audit Committee
José Manuel Ruivo da Pena (Chairman)
Luis Daun e Lorena
João de Faria Rodrigues

Excerpt from the minutes of the Annual General Shareholders' Meeting of Banco Espírito Santo, S.A.

Minutes no. 74

At ten hours on March thirty first, in the year two thousand and eleven, 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:

Item One: to sanction the appointment of Mr. Bruno Bernard Marie Joseph de Laage de Meux as Vice-Chairman of the Board of Directors, and Messrs. Jean-Yves José Hocher and António Bornia as members of the Board of Directors, made by cooptation on April 23rd, 2010, and the appointment as members of the Board of Directors of Messrs. Marc Olivier Tristan Oppenheim and Michel Jacques Mathieu, also made by cooptation, respectively on July 23rd, 2010 and February 25th, 2011.

Item Two: to resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to fiscal year 2010 accounts.

Item Three: to resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to fiscal year 2010 accounts.

Item Four: to resolve on the allocation of results.

Item Five: to make a general assessment of BES' management and supervision.

Item Six: 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.

Item Seven: to resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES' control.

Item Eight: to resolve on the partial amendment of the articles of association, namely the amendment of Article 14 and Article 16 (1 and 5).

Item Nine: to resolve on the partial amendment of the General Meeting Regulation, namely the amendment of Article 4, Article 5, Article 10, Article 13 and Article 14.

Item Ten: to resolve on the authorisation to exercise competing activities.

The General Meeting was chaired by the Chairman of the Board of the General Meeting, Mr. Paulo de Pitta e Cunha. The Board of the General Meeting consisted of its Chairman, its Vice-Chairman, Mr. Fernão de Carvalho Fernandes Thomaz, 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 auditors, KPMG & Associados SROC, S.A., represented by Ms. Sílvia Cristina de Sá Velho Corrêa da Silva Gomes.

Ms. Ana Rita Almeida Campos, representing the law firm of Vieira de Almeida & Associados – Sociedade de Advogados, RL, also attended the meeting in her quality as common representative of the bondholders of BES' EMTN programme

The Chairman of the General Meeting declared the session opened, after ascertaining that there was a quorum of shareholders present or represented owning 807,379,804 shares, corresponding to 69.20% of the share capital and to 8,073,719votes, and that the General Meeting had been regularly called as per notices published on March 7th, 2011 on the DGRN - Publicações website of the Ministry of Justice, and on March 9th, 2011 on the website of the Portuguese Securities Market Commission (CMVM), on BES' website, and also on the Diário de Notícias, Jornal de Notícias, Diário de Notícias – Madeira, and Açoriano Oriental newspapers. The list of shareholders whose individual holdings exceed 2% of the Bank's share capital were also published on the Diário de Notícias and Correio da Manhã newspapers of March 26th, 2011.

(...)
Going into the Agenda, the Chairman of the General Meeting invited the shareholders to discuss item one, "To sanction the appointment of Mr. Bruno Bernard Marie Joseph de Laage de Meux as Vice-Chairman of the Board of Directors, and Messrs. Jean-Yves José Hocher and António Bornia as members of the Board of Directors, made by cooptation on April 23rd, 2010, and the appointment as members of the Board of Directors of Messrs. Marc Olivier Tristan Oppenheim and Michel Jacques Mathieu, also made by cooptation, respectively on July 23rd, 2010 and February 25th, 2011".

(...)
The Board of Directors made the following proposal: "Following the resignations submitted by Messrs. Jean-Frédéric Marie Jacques de Leusse, Bernard Delas and Luiz Carlos Trabuco Cappi, on April 23rd, 2010 the Board of Directors of BANCO ESPÍRITO SANTO, S.A. resolved to co-opt Messrs. Bruno Bernard Marie Joseph de Laage de Meux, Jean-Yves José Hocher and António Bornia, respectively as Vice-Chairman and as members of the Board of Directors. Also, following the resignations submitted by Messrs. Bernard Octave Mary and Jean-Yves José Hocher, the Board of Directors resolved to co-opt as members of the Board of Directors Mr. Marc Olivier Tristan Oppenheim, on July 23rd, 2010, and Mr. Michel Jacques Mathieu, on February 25th, 2011.

Under the terms and for the purposes of Article 393 (4) of the Portuguese Companies Code, the Board of Directors hereby submits said co-optations to ratification by the General Meeting." This Proposal was approved by a majority of 9,314,190 votes, with 17,967 dissenting votes and 6,939 abstentions, making a total of 9,339,096 votes.

(...)
At this point the Board of the General Meeting was informed that the number of shares owned by the Shareholders present or represented was 934,091,115, corresponding to 80.06% of the share capital, and to 9,340,824 votes.

(...)
The meeting then voted separately on items 2, 3 and 4 of the Agenda, the corresponding proposals having been read aloud.

Item two: "to resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to fiscal year 2010 accounts".

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 2010 to the Shareholders, for appreciation and discussion, proposing their approval."

The Board of Directors' proposal was approved by a majority of 9,334,474 votes, with 1,151 dissenting votes and 5,621 abstentions, making a total of 9,341,246 votes.

(...)
Item three: "to resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to fiscal year 2010 accounts". – 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 2010 to the Shareholders, for appreciation and discussion, proposing their approval."

The Board of Directors' proposal was approved by a majority of 9,337,433 votes, with 1,151 dissenting votes and 2,876 abstentions, making a total of 9,341,460 votes.

(...)
Item four: "to resolve on the allocation of results".

The Board of Directors of BANCO ESPÍRITO SANTO, S.A. proposes that:
Pursuant to Article 376 (b)) of the Portuguese Companies Code, and in accordance with the Management Report, the company's net earnings of the year, amounting to EUR 255,997,121.83, be allocated as follows::

	EUROS
FOR LEGAL RESERVES:	26,000,000,00
FOR DISTRIBUTION TO SHAREHOLDERS:	147,000,000,00
FOR OTHER RESERVES:	82,997,121,83
	2,255,997,121,83

The Board of Directors' proposal was approved by a majority of 9,336,740 votes, with 1,388 dissenting votes and 3,332 abstentions, making a total of 9,341,460 votes.

(...)
Item five: "to make a general assessment of BES' management and supervision" (...) the proposal submitted by BESPAR Sociedade Gestora de Participações Sociais SGPS, S.A. was approved by a majority of 9,334,775 votes, with 1,393 dissenting votes and 2,790 abstentions, making a total of 9,338,958 votes.

(...)
Item six: "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". (...) The Remuneration Committee Statement (6 A) was approved by a majority of 9,323,856 votes, with 5,231 dissenting votes and 6,773 abstentions, making a total of 9, 335,860 votes. (...) The Board of Directors Statement (6 B) was approved by a majority of 9,320,741 votes, with 5,535 dissenting votes and 9,584 abstentions, making a total of 9,335,860 votes.

(...)
Item seven: "to resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES' control." (...) The Board of Directors' proposal was approved by a majority of 9,327,937 votes, with 5,074 dissenting votes and 2,809 abstentions, making a total of 9,335,820 votes.

(...)
Item eight: "to resolve on the partial amendment of the articles of association, namely the amendment of Article 14 and Article 16 (1 and 5)." (...) The Board of Directors' proposal was approved by a majority of 9,330,825 votes, with 391 dissenting votes and 4,139 abstentions, making a total of 9,335,355 votes.

(...)
Item nine: "to resolve on the partial amendment of the General Meeting Regulation, namely the amendment of Article 4, Article 5, Article 10, Article 13 and Article 14." (...) The Board of Directors' proposal was approved by a majority of 9,331,246 votes, with 190 dissenting votes and 3,684 abstentions, making a total of 9,335,120 votes.

(...)
Item ten: "to resolve on the authorisation to exercise competing activities"

(...)
"Board of Directors' proposal - Whereas:

a) by indication of the Board of Directors of BANCO ESPÍRITO SANTO, S.A., dated July 23rd, 2010, Mr. João Eduardo Moura da Silva Freixa was appointed on behalf of and in representation of BANCO ESPÍRITO SANTO, S.A as a member of the Board of Directors of Unicre – Instituição Financeira de Crédito, S.A. ("UNICRE"), effective as of August 24th, 2010;

b) in accordance with the corporate object established in UNICRE's articles of association, the company is authorised to carry out all operations allowed to Banks, except the taking of deposits;

c) the Board member Mr. João Eduardo Moura da Silva Freixa is therefore exercising functions in a company that competes with BANCO ESPÍRITO SANTO, S.A.;

d) under the terms of the law, it is the responsibility of the General Meeting to authorise Mr. João Eduardo Moura da Silva Freixa to exercise functions at UNICRE, and considering that the regime of access to sensitive information by directors of UNICRE who exercise functions in Banks that are its shareholders is to be regulated by that Company's General Meeting.

The Board of Directors proposes that Mr. João Eduardo Moura da Silva Freixa be authorised to exercise functions as non executive director of UNICRE, for which he was appointed on behalf of and in representation of BANCO ESPÍRITO SANTO, S.A..

The Board of Directors' proposal was approved by a majority of 9,329,263 votes, with 292 dissenting votes and 4,850 abstentions, making a total of 9,334,405 votes.

(...)
There being no further matters to discuss, the Chairman of the General Meeting declared the meeting closed at thirteen hours and fifteen 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..