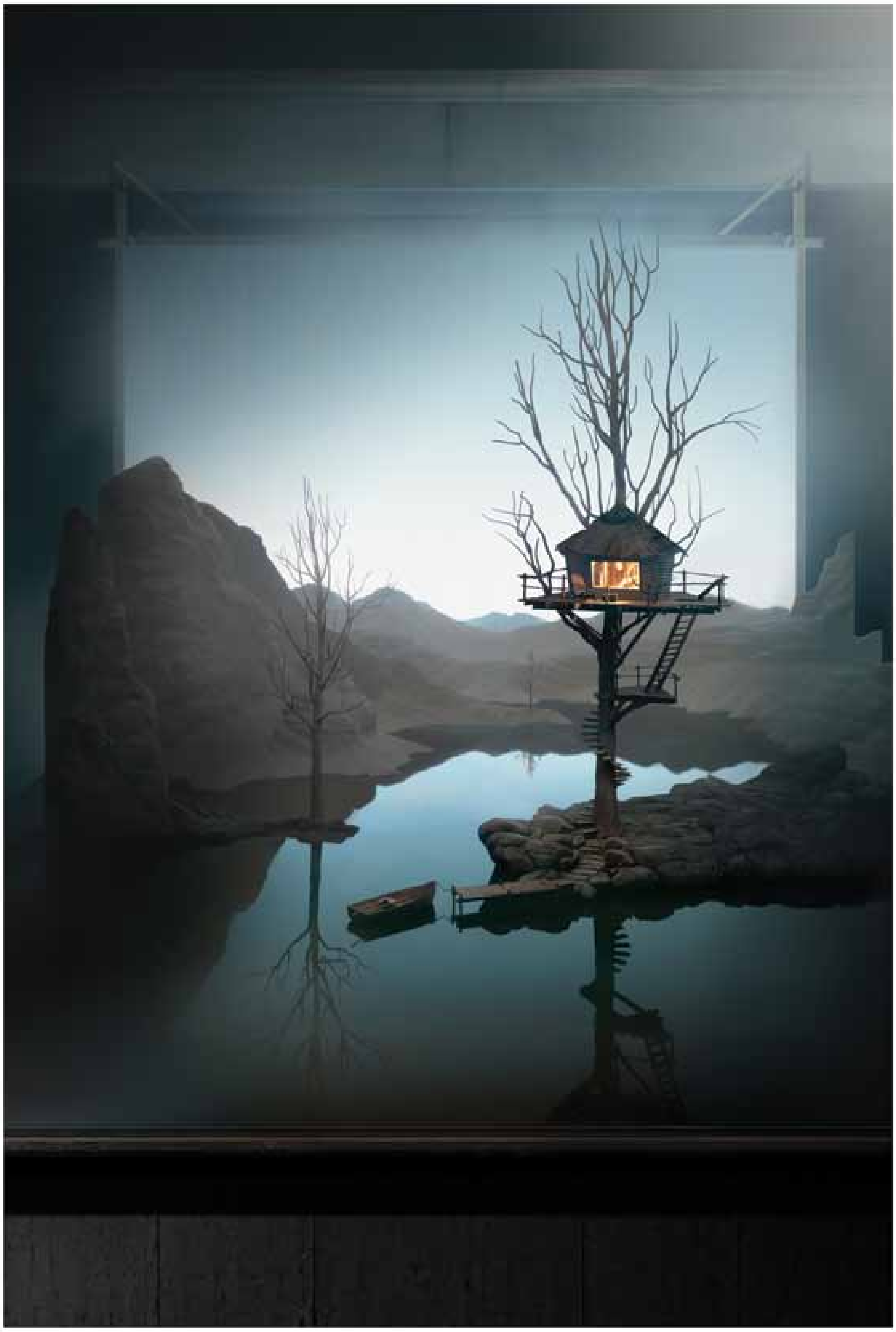
GRUPO BANCO ESPIRITO SANTO



2011 Annual Report

Index

GRUPO BANCO ESPIRITO SANTO

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

Main Indicators *

	2007	2008	2009	2010	2011
ACTIVITY (eur million)					
Total Assets [1]	93,606	97,882	105,917	104,912	98,589
Net Assets	68,142	74,244	81,702	83,028	80,237
Customer Loans (incl. securitised)	43,161	48,198	50,531	52,606	51,211
Customer Deposits	23,775	26,387	25,447	30,819	34,206
Total Customer Funds	55,445	55,698	60,595	55,988	54,383
Core Capital	3,486	3,412	5,232	5,416	6,020
RESULTS/PROFITABILITY (%)					
Net Income (M€)	619.6	419.2	571.7	556.9	-108.8
Return on Equity (ROE)	17.0	10.2	11.0	9.4	-0.1
Return on Assets (ROA)	1.00	0.59	0.73	0.66	0.00
SOLVENCY (%)					
Bank of Portugal [2]					
- Total Solvency Ratio	11.5	11.3	11.2	11.3	10.7
- TIER I	7.5	7.1	8.3	8.8	9.4
- CORE TIER I	6.6	6.1	8.0	7.9	9.2
LIQUIDITY (eur million)					
ECB funds (net) [3]	- 2,158	250	- 1,760	3,929	8,677
ECB Eligible Assets (collaterals)	1,987	4,645	5,553	10,823	15,057
Loans to Deposits Ratio (%)	177%	178%	192%	165%	141%
ASSET QUALITY (%)					
Overdue Loans > 90 days / Gross Loans	1.00	1.09	1.60	1.95	2.74
Provisions / Overdue Loans > 90 Days	228.8	219.0	191.5	173.0	154.5
Credit at Risk [4]/Total Credit	-	-	-	4.99	6.59
Credit Provisions Reserve / Customer Loans (Gross)	2.29	2.38	3.07	3.38	4.23
Cost of Risk [4]	0.49	0.57	1.07	0.67	1.17
PRODUCTIVITY/EFFICIENCY					
Operating Costs / Total Assets (%)	1.00	1.01	0.95	1.07	1.15
Assets per Employee (€,000)	11,158	10,945	11,898	10,641	9,996
Total Cost to Income (%)	46.9	52.2	41.1	46.7	57.9
Cost to Income (ex-markets) (%)	58.7	57.2	52.4	57.0	57.3
EMPLOYEES					
Total [6]	8,389	8,943	8,902	9,858	9,863
- Domestic Activity	7,110	7,546	7,388	7,584	7,588
- International Activity	1,279	1,397	1,514	2,274	2,275
BRANCH NETWORK					
Retail Network	757	803	799	828	801
- Domestic	700	743	734	731	701
- International	57	60	65	97	100
Corporate Network (domestic)	27	27	26	24	24
Private Banking Network (domestic)	29	28	25	22	22
RATING					
Long Term					
STANDARD AND POOR'S	A	A	A	A -	BB
MOODY'S	Aa3	Aa3	A1	A2	Ba2
DBRS	-	-	-	-	BBB
Short Term					
STANDARD AND POOR'S	A 1	A 1	A 1	A 2	B
MOODY'S	P 1	P 1	P 1	P 1	NP
DBRS	-	-	-	-	R-2(high)

* Historical data restated according to changes in accounting policy for booking actuarial deviations
(1) Net Assets + Asset Management + Other off-balance sheets + Securitised Credit
(2) 2008, 2009, 2010 and 2011 data calculated based on IRB Foundation method
(3) Positive figure represents a borrowing position; negative figure represents a lending position
(4) Acording to BoP instruction nº23/2011
(5) Credit provision charge (P&L provisions / Gross Loans)
(6) Includes permanent employees and term contract employees

Bank of Portugal reference Indicators

The table below lists the reference indicators established by Bank of Portugal Instruction no. 16/2004, as amended by Instruction no. 23/2011, for both December 2011 and 2010.

Results and Profitability

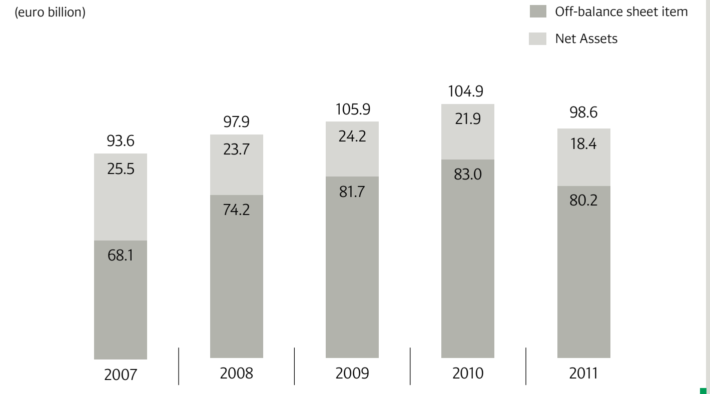
		SIMBOL.	2007	2008	2009	2010	2011
	Average Balance (eur million)						
	Net Assets	NA	62,189	71,418	78,657	83,759	82,178
	Interest Earning Assets	IEA	53,701	61,788	68,018	72,163	70,279
	Capital and Reserves	KP	3,457	3,779	4,886	5,578	5,895
	Income Statement (eur million)						
	Net Interest Income	NII	953.7	1,086.2	1,200.9	1,164.0	1,181.6
+	Fees and Commissions	FC	643.4	636.2	717.9	806.9	790.5
=	Commercial Banking Income	CBI	1,597.1	1,722.4	1,918.8	1,970.9	1,972.1
+	Capital Markets and Other results	CMR	404.1	165.7	530.6	432.9	-21.9
=	Banking Income	BI	2,001.2	1,888.1	2,449.4	2,403.8	1,950.2
-	Operating Costs	OC	938.2	984.7	1,006.1	1,123.1	1,129.2
=	Net Operating Income	OI	1,063.0	903.4	1,443.3	1,280.7	821.0
-	Net Provisions	PROV	262.9	375.8	708.8	533.6	848.3
=	Income before Taxes and Minorities	PBT	800.1	527.6	734.5	747.1	-27.3
-	Income Tax	T	152.5	83.5	109.8	43.7	-31.1
-	Minority Interests	MI	28.0	24.9	53.0	146.5	112.6
=	Net Income	NII	619.6	419.2	571.7	556.9	-108.8
	PROFITABILITY (%)						
	Net Interest Margin	NII / IEA	1.78	1.76	1.77	1.61	1.68
+	Return on Fees and Commissions	FC / IEA	1.20	1.03	1.06	1.12	1.12
+	Return on Capital Markets and Other Results	CM / IEA	0.75	0.27	0.78	0.60	-0.03
=	Business Margin	BI / IEA	3.73	3.06	3.60	3.33	2.77
-	Weighting of Operating Costs	OC / IEA	1.75	1.59	1.48	1.56	1.61
-	Weighting of Provisions	PROV / IEA	0.49	0.61	1.04	0.74	1.21
-	Weighting of Minorities and other	(MI+IT+XR) / IEA	0.34	0.18	0.24	0.26	0.12
=	Return on Interest Earning Assets	NP / IEA	1.15	0.68	0.84	0.77	-0.15
x	Weighting of Interest Earning Assets	IEA / NA	0.86	0.87	0.86	0.86	0.86
=	Return on Assets	NP / NA	1.00	0.59	0.73	0.66	0.00
x	Placements multiplier	NA / KP	17.02	17.39	15.15	14.11	13.72
=	Return on Equity	NP / KP	16.96	10.21	11.01	9.38	-0.05

Bank of Portugal reference Indicators

	2010	2011
SOLVENCY		
Tier I/ Risk Weighted Assets	11.3%	10.7%
Regulatory Capital / Risk Weighted Assets	8.8%	9.4%
Core Tier I / Risk Weighted Assets	7.9%	9.2%
ASSET QUALITY		
Overdue and Doubtful Loans / Gross Loans	2.7%	3.6%
Overdue and Doubtful Loans net of Impairments /Total Net Loans	-0.7%	-0.6%
Credit at Risk / Gross Loans	5.0%	6.6%
Credit at risk (net) / Net Loans	1.7%	2.5%
PROFITABILITY		
Income before Taxes and Minorities/Average Equity	10.3%	-0.8%
Banking Income /Average Net Assets	2.9%	2.4%
Income before Taxes and Minorities/Average Net Assets	0.8%	-0.1%
EFFICENCY		
General Admin Costs+Depreciation/Banking Income	46.7%	57.9%
Staff Costs / Banking Income	24.2%	30.1%
TRANSFORMATION RATIO		
(Gross Loans - Provsions)/ Customer deposits	165%	141%

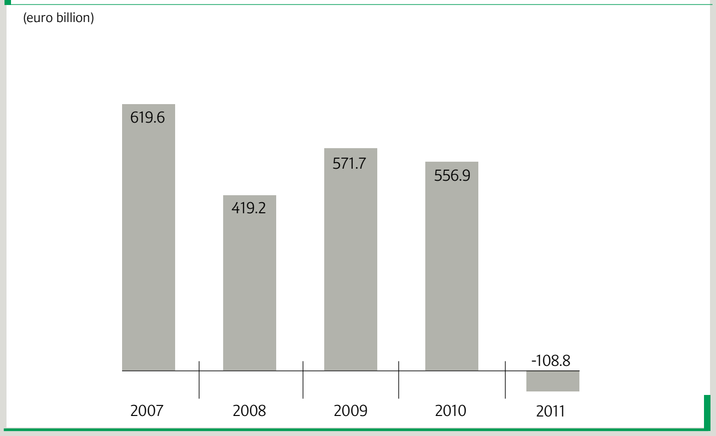
* Historical data restated according to changes in accounting policy for booking actuarial deviations

Total Assets

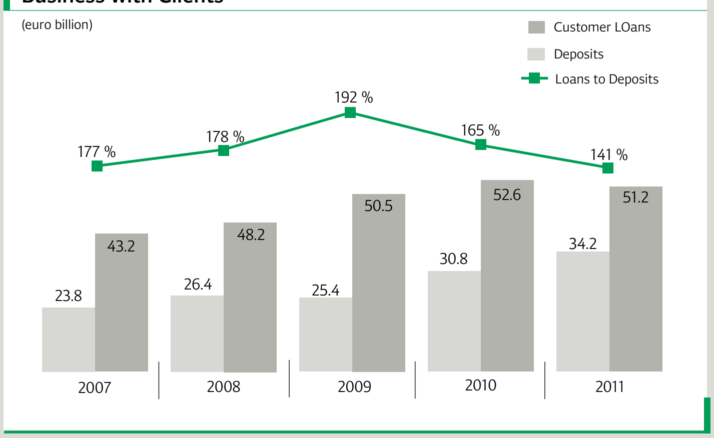


[1]Assets and Liabilities off-balance items

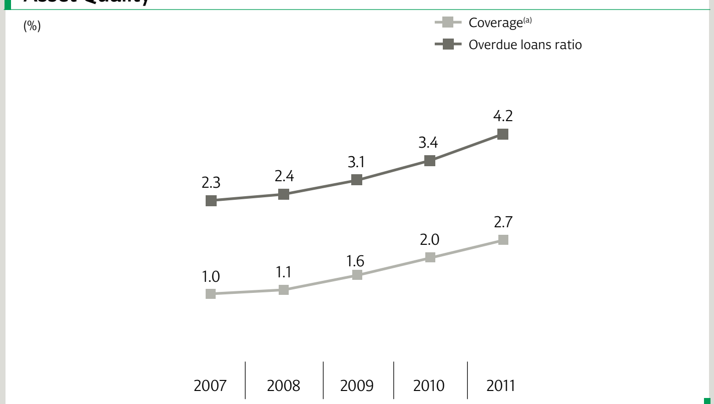
Net Income



Business with Clients

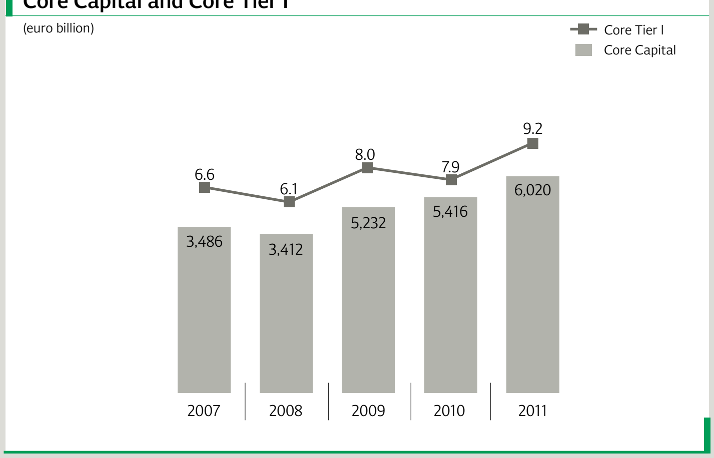


Asset Quality

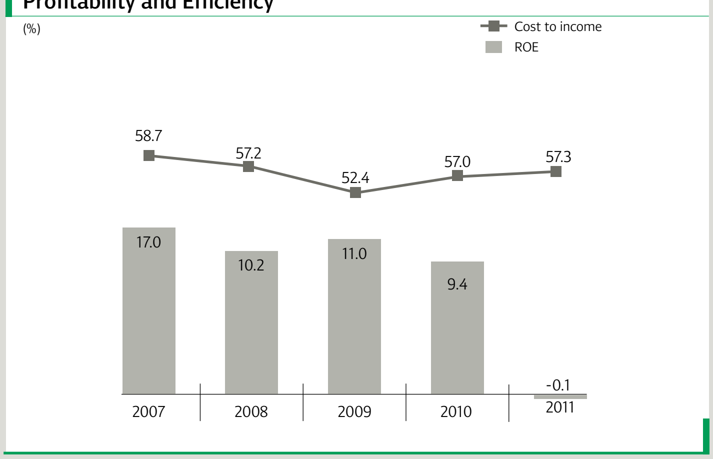


(a)Overdue Loans + 90d / gross loans to customers

Core Capital and Core Tier I



Profitability and Efficiency



Management Report

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

Dear Shareholders,

2011 was a year of huge challenges for our country, for the Portuguese families and for economic activity. It was marked by several events that tarnished the image of Portugal and restrained access to the international markets. The sovereign debt crisis in the Eurozone, fears of a new world recession and successive cuts of the sovereign ratings intensified a feeling of uncertainty, and Portugal was amongst the most affected countries.

Fears over Greece's default dominated the feeling of uncertainty that prevailed in Europe throughout the year, spreading to peripheral economies such as Spain and Italy, but also to other countries such as France and Austria. The loss of confidence and increasing aversion to risk caused by financial instability in the Eurozone triggered a rapid drying up of liquidity in the money and credit markets, which was particularly acute as from September. In the fourth quarter, the European Central Bank (ECB) reversed its monetary policy course of lifting interest rates, and once again cut the benchmark rate to 1%. At the same time, the ECB significantly reinforced liquidity injections in the financial system, loosened collateral rules and reduced the reserve requirements for European banks.

The equity markets were also severely penalised, with the main European indices suffering significant losses: the DAX, CAC40, IBEX and PSI20 retreated in the year by 14.69%, 16.95%, 13.11% and 27.6%, respectively, with the financial sector registering some of the heaviest losses.

In Portugal, this climate was made even worse by the consecutive downgrades of the Portuguese Republic's ratings, which culminated already in 2012 with Standard and Poor's cutting the sovereign rating to BB (two notches below investment grade), and Moody's to Ba3 (three notches below investment grade).

In May 2011 the Portuguese Government signed an agreement with the European Union, the European Central Bank and the International Monetary Fund on the concession of a EUR 78 billion financial assistance package to the Portuguese economy. During the year, these entities made two favourable assessments of the programme's implementation. The public deficit was reduced from 9.8% to close to 4% of GDP. Although this was largely underpinned by extraordinary measures such as the partial transfer of banks' pension funds to the public pension system, it should be highlighted the significant effort made to reduce public expenditure, which grew below budget, and a good budget implementation, in line with estimates.

Under the Economic and Financial Policy Memorandum signed by the Government with the EC/ECB/IMF, the Portuguese banks were required to define a funding and capital plan for 2011-2015, including the strategy to deleverage the balance sheet, reinforce capital ratios and improve liquidity. In particular, the financial groups are required to reach a loan to deposits ratio of 120% and a stable funding ratio of 100% in December 2014, as well as a Core Tier I ratio of at least 9% in December 2011, of 9% under Basel 2.5 on 30 June 2012 and of 10% in December 2012.

Maintaining the same course outlined more than a century ago, which is based upon a long term strategy, a solid and stable management, a firm financial discipline, and a strict risk control policy, the Banco Espírito Santo Group is well prepared to weather these challenges.

The Group initiated a deleveraging programme in the second half of 2010, well ahead of the request for financial assistance made by the State and in anticipation of the inevitable readjustments that would be required from the Portuguese financial system. This ambitious programme permitted to reduce the loans to deposit ratio from 198% in the first half of 2010 to 141% at the end of 2011, underpinned by the sale of assets totalling EUR 2.7 billion (mainly from the international portfolio) and an increase of more than EUR 8 billion in customer deposits. The strategic option to focus on the sale of international loans aimed to protect the Portuguese companies from a credit squeeze, and is in line with the Group's traditional support of the Portuguese corporate sector, and in particular of the exporting SMEs.

The deposit base in the Portuguese financial system has been consistently expanding (growing by 6.9% in 2011), which reflects the depositors' confidence in the system. In fact, despite the extremely adverse conditions in which they developed their activity in 2011, banks have maintained solid key financial indicators. Since April 2010 the banking system faces strong restrictions on access to liquidity, not only due to the impossibility to tap the medium and long term debt market, but also through a significant reduction in short-term liquidity instruments (CDs, commercial paper, the money market).

Over the year, as the Portuguese Republic's ratings were successively cut, banks' ratings were accordingly downgraded, increasing international investors' concerns. In this context, the Portuguese banks have been able to manage liquidity and meet their commitments at maturity, supported by their balance sheet deleveraging programmes and having in the ECB their lender of last resort. In some other Eurozone countries, financial institutions were less guarded in their access to the ECB, significantly increasing their debtor positions with the Central Bank, especially as from August.

At the end of 2011 Banco Espírito Santo's net borrowing position at the ECB was EUR 8.8 billion, while its portfolio of assets eligible for rediscount operations with the ECB totalled EUR 15.1 billion. This total includes exposure to Portuguese sovereign debt of EUR 2.8 billion (of which EUR 2.1 billion with a maturity of less than one year). BES had no other European sovereign exposures.

In December 2011 the Bank successfully completed a debt to equity exchange offer viewing the reinforcement of its capital ratios to comply with the Bank of Portugal's requirements, namely a core Tier I ratio of 9% at the end of 2011. The operation allowed BES Group to reach a core Tier I ratio of 9.2% at year-end, thus above the Bank of Portugal's requirements.

In light of the expected deterioration in credit quality, and in line with its prudent stance in risk management, BES reinforced credit provisions by 70.7% year-on-year, to EUR 600.6 million. The Provisions for Credit / Gross Loans ratio was 4.23% in December 2011, one of the highest among Iberian banks. Banco Espírito Santo's overdue loan ratios have consistently trended below the average for the banking sector in Portugal.

BES Group posted a net loss of EUR 108.8 million in 2011, reflecting the impact of a set of one-off charges: a EUR 107 million loss related to the transfer of BES's pension fund to the State (EUR 76 million net of taxes); EUR 193.3 million losses on BES Group's holding in BES Vida – a 50% stake, with management control held by Crédit Agricole - (EUR 144 million net of taxes); and EUR 78 million losses on the sale of international loans (EUR 55 million net of taxes). Excluding these non recurrent items, BES would have posted a net profit of EUR 166.6 million, thus proving the resilience of its results and the strength of its management model.

International expansion – a pillar of the Group's long-term strategy and future development - has been crucial to offset the contraction in the domestic market. At the beginning of 2012 the Bank opened a branch in Caracas, Venezuela, with the objective of reinforcing the support provided to the large Portuguese community in this country.

Indeed, BES is today the most international of all Portuguese private-sector banks, being present in 25 countries, in four continents. The Bank has deployed and expanded its international reach in tandem with the expansion of the Portuguese companies into new markets, setting the conditions in place to act not only as a local partner to these companies but also as a proximity bank for the communities of Portuguese foreign residents. BES Group has from the start focused on a geographical axis formed by countries with cultural and economic affinities with Portugal: year upon year, the Strategic Triangle (Africa, Brazil and Spain) has proved to be a won bet, being responsible in 2011 for 75% (EUR 121.3 million) of the total international business net profit.

Banco Espírito Santo strongly emphasises long-lasting relationships and proximity to its Clients. This attitude and the dedication of its specialised bankers are a guarantee of high-quality service wherever it is present.

BES Group's prudent and conservative management has allowed it to face up to the current challenges while maintaining a clear strategy of support to the Portuguese companies and families, with the objective of pursuing its mission of creating value for shareholders, clients and employees. A high sense of responsibility has led the Banco Espírito Santo Group to reinforce its sustainability strategy and adjust it to the current economic context, devising new proposals to support the communities most affected by the crisis in the areas where it operates. Translating is consistent posture and activity in this area, in 2011 BES was the first Portuguese bank to enter the Dow Jones Sustainability Indexes (DJSI) - the most relevant sustainability indexes for the international capital markets -, where it was included within a restricted group of only 15 banks.

Banco Espírito Santo, which had its origin 143 years ago, continues to prove that it has a consistent strategy and the ability to weather the hardest challenges with wisdom, rigour and vision. We firmly believe that our management model, the consistence of our strategy, and the high level of preparedness of our teams are the cornerstones for continued value creation.

To all our employees, we would like to express our very special gratitude for the commitment and professionalism which they have once again shown, and which has been decisive, not only to maintain the quality standards which our Clients expect from us, but also to continue to deserve their confidence.

At the end of this year two members of the Executive Committee have retired. Both Mr. Jean-Luc Guinoiseau and Mr. Dr. Pedro Homem contributed with their professionalism and vast experience in banking to make BES the Bank we know today. Mr. Jean-Luc Guinoiseau, a member of the Executive Committee for 12 years and also the representative of Crédit Agricole, always knew how to ally a high level of competence with the ability to reinforce a relationship of trust among shareholders, highlighting his posture of strong ethical and professional independence. Mr. Epifânio da Franca, an independent, non executive member of the Board of Directors, also resigned his post at the end of the year. To all of them we would like to address a word of thanks and appreciation for their competence and dedication over the years in which they served in Banco Espirito Santo's Board.

To our shareholders, clients and all other stakeholders, we also express our special recognition and the assurance that we will continue to work with the same unswerving dedication.

Finally, we thank the government authorities, the Bank of Portugal, the CMVM and the Portuguese Insurance Institute for their trust in BES 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

Executive Committee

João Eduardo Moura da Silva Freixa

Pedro José de Sousa Fernandes Homem

Ricardo Espírito Santo Silva Salgado
Chairman

Joaquim Anibal Brito Freixial de Goes

Amilcar Carlos Ferreira de Morais Pires

Jean-Luc Louis Marie Guinoiseau

Jorge Alberto Carvalho Martins

José Manuel Pinheiro Espírito Santo Silva

António José Baptista do Souto

José Maria Espírito Santo Silva Ricciardi

Rui Manuel Duarte Sousa da Silveira

1. Bes Group

Mission

With a history of 143 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. Moreover, 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.

Logotype Evolution

1869-1884

1897-1911

1911-1915

1916-1920

1920-1931

1932-1937

1937-1964

1965-1990

1965-1990

1990-2005

A Brand with more than 140 years

143 years of history creating value for shareholders, clients and employees

1869 – THE BEGINNING

Creation of Caza de Câmbio specialised in national and international securities trading by José Maria Espírito Santo e Silva together with other investors

1937

After the creation of the name Banco Espírito Santo in 1920 the Bank merged with Banco Comercial de Lisboa creating BESCL

...

1975

BESCL is nationalised within the Nationalisation program in Portugal after 1974 Revolution. Espirito Santo family rebuilds its financial interests abroad and creates the Espirito Santo Group (GES)

1986

Espirito Santo Group returns to Portugal establishing BIC (Banco Internacional de Crédito in partnership with Credit Agricole) and ESSI

1991

Espirito Santo Group regains control of BESCL during Re-privatisation process. The bank consolidated its presence in Portugal, reinforcing market share in both retail and corporate segments

...

2000-2001

2000 and 2001 mark the firs steps of the “strategic triangle”: BES strengthens its position in Spain, enters a partnership with Banco Bradesco in Brazil and creates BES Angola

2005

Integration of BIC into BES

2006

BES makes a EUR 1.38 bn rights issue and buys 50% of BES Vida (Portugal's life insurance market leader)

2009

BES makes a EUR 1.2 bn rights issue to continue organic growth and strengthen the capital ratios

2012 – TODAY

Largest Portuguese Listed Bank in Portugal with 19.2% market share domestically and pursuing a focused international expansion (present in 24 countries in 4 continents)

WW I – **Great Depression** – **WW II** – **Nationalisation** – **Lat Am Crisis** – **Privatization** – **Russia Crisis LTCM bailout** – **Dot.com bubble** – **9/11** – **Subprime** – **European sovereign debt crisis**

BES Group today

Banco Espírito Santo, S.A., a universal financial services group, has its decision centre in Portugal, which makes it its privileged market. In December 2011 the Group's activity in Portugal represented 74% of its total assets. With a presence in four continents, activity in 25 countries and employing more than 9,800 people, BES Group is currently the largest Portuguese listed bank by market capitalisation and the second largest private-sector bank in Portugal by total assets (EUR 2.0 billion and EUR 80.2 billion, respectively, on December 31st, 2011).

With its differentiated approaches and value propositions, BES Group offers a broad range of financial products and services that meet the specific needs of all client segments - companies, institutions and individual clients. These include deposits, loans to companies and individuals, investment funds management, brokerage and custodian services, investment banking services, and also the sale of life and non life insurance.

Since its privatisation, BES has followed a clear and consistent strategy of organic growth in the domestic market (where its share increased from 8.5% in 1992 to 19.3% in 2011), which has benefited from the development of a market approach based on a multispecialist model. A growth strategy based on solid brand recognition and strong commercial dynamics have made BES a reference in the domestic market, and in particular in the corporate segment. Complementing its domestic operations, BES Group develops international activities focused on countries with cultural and economic affinities with Portugal, such as Spain, Brazil and Angola. In December 2011 the international activity represented 26% of BES Group's consolidated net assets.

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 engage in cross-border business, namely by supporting the internationalisation of Portuguese companies. In this regard, particular emphasis is placed on facilitating access to strategic markets and markets offering business opportunities and where the Group can provide support, either through its direct presence or through its partnerships with local banks.

Distribution channels

Distribution capacity is a key factor in the Group's competitive positioning. At December 31st, 2001, BES Group had a domestic retail network of 701 branches and a network of 94 branches abroad, of which 25 in Spain, 34 in Angola, 33 in Libya and 2 in Cape Verde. This is complemented by specialised centres fully dedicated to the corporate and private banking segments: at the end of 2011 the Group had 23 private banking centres (22 in Portugal and 1 in Angola) and 34 corporate banking centres (24 in Portugal, 9 in Spain and 1 in Angola).

To expand the branch network across the national territory, new formats were designed that are more efficient and more flexible – smaller branches, onsite branches in partnership with insurance agents within the scope of the Assurfinance programme (a joint venture with Companhia de Seguros Tranquilidade) and partnerships with external promoters (ca. 2,700). At the end of 2011, these complementary networks, which give a decisive contribution to activity growth, represented 17% of customer funds growth in retail and more than 26% of client acquisitions.

In addition to its physical presence throughout the national territory BES Group has early on developed a multi-channel approach to the clients. This relationship is essentially developed through the internet, where the Group is market leader, with more than 1 million subscribers to BESnet, the Bank's internet banking service for individual clients. This multi-channel approach has been progressively enhanced and reinforced, namely through the implementation of a Customer Relationship Management (CRM) system that ensures the integration of the various client interaction channels, and also through the increasing dematerialisation of processes.

Using the most advanced technologies, BES offers its clients a number of communication channels that enable permanent contact and access to the Bank:

- **BES Ipad:** adaptation of BES website for iPad, allowing the client to access information, namely account statements, and make transfers, payments or any other transaction available through BESnet;
- **BESmobile:** specifically developed for mobile phones, this service can be used for a range of banking operations;
- **BESdirecto:** phone service used to make bank transactions and seek advice on bank products. It features different lines according to the client's profile: BESdirecto international, BESdirecto Welcome, ES Private Phone, BES 360 Line, Linha informativa T and BESdirecto Seguros (insurance);
- **BEScall:** free-of charge messaging service through BESnet: "send us a message and we will call you directly";
- **BESchat:** online chat service: "talk to us".

The Other BES - Social Responsability

'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 2011, BES Group invested approximately EUR 3.6 million in the five strategic areas defined for engagement and investment in society, namely Science and Innovation, Financial Literacy & Education, Biodiversity & Climate Change, and Culture and Social Support.

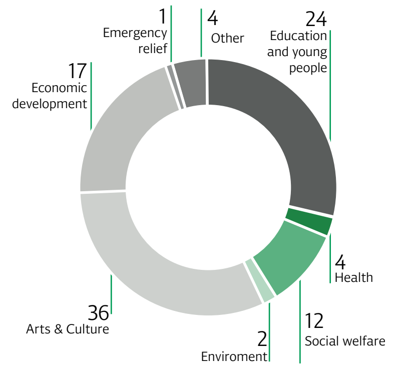
For the third year, BES has measured its investment in the community using the methodology proposed by the London Benchmarking Group (LBG), a group of international businesses that seek to manage, measure and report on their involvement in the community.

In 2011 BES Group allocated approximately 23% of its contributions to solidarity, 72% to direct investment in the community and 5% to commercial actions.

Under the patronage scheme alone, the Group provided EUR 3.3 million in financial support.

Breakdown of donations (LBG model)

(%)



* According to the LBG Model

Social solidarity architecture

Culture Patronage	Science and Innovation	Education and Financial Literacy	Solidarity	Biodiversity and Climate Change
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		b-a-bes	Banco de Bens Doados	
Fundação Ricardo do Espírito Santo Silva		Orçamento Familiar BES	Salvador	

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

Photography is the cultural pillar of BES's 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. In 2011, the BESArt photo collection, which comprises some 900 works by 300 artists from all over the world, won the 'Coleccionismo Corporativo' prize awarded by the Amigos da ARCO Association. BES Arte & Finança hosted 98 events in 2011.

This year 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 7th edition of BESphoto's exhibition received 46,000 visitors in 90 days. 2011 saw the internationalization of the BESphoto prize: as from its 7th edition the selection scope was expanded to include artists not only from Portugal, but also from Brazil and the Portuguese-speaking African countries ("PALOPs"). As a result of this internationalisation, the BESphoto exhibition travelled from the Berardo Museum to the Pinacoteca of the State of São Paulo (a visual arts museum in São Paulo, Brazil).

In 2011, BES continued to provide support to museums and foundations dedicated to protecting and promoting Portuguese culture and heritage, namely the Ricardo Espírito Santo Silva Foundation, which has given a valuable contribution to decorative arts in Portugal, the Oriente Museum and the Aljubarrota Battle Foundation.

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

Promoting a culture of innovation and reinforcing the interconnection between research and business are the key pillars of BES's investment in science and innovation. In this area, the Bank promotes the BES National Awards for Innovation, the Management and Innovation Course, and the Science at School prize.

BES National Awards for Innovation

The 7th edition of the National Innovation Awards, held in 2011, received a total of 167 applications for the following categories: Clean Tech, Industrial Processes, Information Technologies and Services, Health & Biotechnology, and Natural Resources & Food. The top prize was awarded in the Clean Tech category, to a groundbreaking and environment-friendly fabric dyeing technology that represents an important alternative to the conventional solutions used in the textile industry. In addition to reducing water consumption to a minimum, it can rapidly be implemented at world level. Another 4 prizes were awarded to projects that stood out for their innovative and differentiating characteristics at international level.

Management and Innovation Course

BES Group and the Portuguese Catholic University have developed a pioneering initiative in Portugal, the Advanced Management and Innovation Course, a hands-on programme intended to teach entrepreneurs to successfully implement a business idea in the global market. In 2011 the course was attended by 30 participants from 17 companies/projects that were selected through a global assessment of the applicants' curricula and the potential of the proposed project or idea.

Science at School Prize

The objective of the Science at School prize, a joint initiative of BES and the Ilídio Pinho Foundation, is to give a symbolic contribution to the construction of a culture focused on innovation and scientific knowledge. BES has participated in this initiative for seven consecutive years. The edition organised for the 2010/2011 school year analysed 701 applications, and distinguished 24 Portuguese schools that submitted innovative interdisciplinary projects.

Spreading information

Spreading information about innovative projects allows good Portuguese practices in innovation to reach a wider public. In 2011 BES maintained the "BES Innovation" monthly supplement under a partnership with the Diário Económico newspaper, as well as the partnership with the TSF radio station, where its "New World" daily programme focuses on the innovations that helped change the world.

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

The "**b-a-bes**" and the **BES Family Budget** (see retail products) are the Bank's main new additions to 'From Mathematics to Financial Literacy' programme. This programme, which was created in 2006, comprises a range of initiatives designed to develop a taste for mathematics, thus contributing to form a new generation of consumers of financial services who are more informed and more capable of taking financial decisions.

The 'b-a-bes' is a microsite created by BES where economic and financial concepts are explained in a practical, easy-to-learn manner to help people take their financial decisions. This new tool features a glossary of key words in the financial lexicon, as well the "New Economy" section, the first to appear in the market, which provides answers to the most frequent questions about the current economic situation, using short video films that explain the most complex and novel economic and financial concepts in a simple and accessible manner.

The **Portuguese Mathematics Olympiads** are an initiative of the Portuguese Mathematics Society, supported by BES since 2006. This initiative, which also aims to promote a taste for mathematics, targets students in the 2nd and 3rd cycles of basic education and in secondary education. Approximately 42,000 students participated in the 29th edition of the Mathematics Olympiads.

'**At the School Bench**' is also a joint initiative of Banco Espírito Santo and the Portuguese Mathematics Society, which targets third and fourth grade students. In 2011, 2,648 students participated in this initiative's 5th edition. Since it first began, BES has already brought into the project more than 10,000 students, thus helping to acquaint a new generation of Portuguese people with the world of finance, from their earliest years at school.

BES Group has also cooperated with the Portuguese Association of Banks ("APB") in the planning and implementation of a "Financial Strategy for Financial Literacy". The main Portuguese financial institutions participate in this initiative, which is coordinated by the APB.

Solidarity – to help organisations that provide social support in areas as diverse as healthcare, or the fight to hunger, poverty, and social exclusion

By supporting social solidarity institutions, BES contributes to mitigate the most pressing social needs within the Portuguese society.

In 2011 BES maintained its financial aid to the following institutions:

- 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.

BESI donates trading revenues to social solidarity institutions

The money raised by the "Charity Trading Day" held by BESI will be used to support a range of initiatives to help the disadvantaged.

This initiative took place in the various geographies where BESI is present, namely in Portugal, Spain, Poland, Brazil, the UK and Hong Kong.

Voluntary work

The 'BES Voluntary Work Programme', launched in 2011, engaged 263 people who dedicated 400 hours to voluntary work, in a series of 14 actions conducted between July and November, benefitting a total of 1,000 people. The programme's main objectives were to (i) promote team building and a team spirit, (ii) help build links between the company, the employees and the community, (iii) contribute to generate new personal and professional skills and attitudes that reinforce engagement with the company.

BES is committed to contributing to a fairer society, a society where sharing and mutual help are encouraged.

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

Sustainable Future

In 2011 BES and the Expresso newspaper (a renowed Portuguese newspaper) organised the 5th edition of the Sustainable Future programme.

One of the main events of this edition was the Sustainable Future Conference, "The Global Environmental Challenges and the Role of the Private Sector". In the International Year of Forests, Izabella Teixeira, Brazil's Minister for the Environment, was the main speaker, having highlighted five key themes in the sustainability agenda, namely climate safety, food safety, energy safety, biodiversity and peace.

Other events of the Sustainable Future programme were the award of the Sustainability Journalism Prize to Alexandra Correia, journalist, and Luís Barra, photographer, for their piece "Life in the great dams", published in the Visão magazine in 2010, and also the 4th edition of the BES Biodiversity Prize, jointly organised with the Centre for Research in Biodiversity and Genetic Resources "(CIBIO"), which this year distinguished projects developed by the business sector for the protection of the environment or demonstrating a commitment to biodiversity. The winners were the projects "Lusomar Extract", by Bioalvo, SA and "Leguminous-rich biodiverse pastures", a technique to improve production and the environment, developed by Fertiprado and the National Institute of Biological Resources.

In the In the International Year of Forests, promoted by the United Nations, BES Group also organised the Conference "The future of Forests – the Mediterranean Forest".

Investment in Biodiversity

Biodiversity is one of the pillars that differentiates BES Group's strategy for sustainability and its engagement and investment in society.

Following its pioneering endorsement of the Business & Biodiversity Declaration of Commitment, in 2011 BES Group consistently invested in awareness-raising, education and communication initiatives on the value of biodiversity for society. Main initiatives in this area:

- 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 to develop and promote emerging areas of knowledge, namely through research and development projects dealing with issues of mutual interest to BES and the Porto University;
- Partnership with Herdade da Poupa, with the objective of preserving endangered species, reforestation, and the protection native flora habitats;
- Protocol with the Ecology Educational Centre of Paul da Tornada, which hosts flora and fauna of considerable importance, with an abundance of birds, otters and certain endangered species in Portugal;

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

- Patron of CIBIO, Porto University's Research Centre for Biodiversity and Genetic Resources, which has an important role in Portugal in advancing scientific knowledge in the fields of biodiversity and evolutionary biology; every year CIBIO prepares an analysis of BES Group's impacts on biodiversity, with guidelines on how to minimise these impacts;

- Cooperation with the League for Nature Protection with the objective of creating the conditions to preserve a Mediterranean corridor habitat suitable for the Iberian lynx and the black vulture, and to ensure its long-term management.

Climate Change

Climate change presents one of the great challenges in today's society. After investing in the discussion and spreading of this theme in 2009, and in the creation of financial products and services permitting to reduce and adapt to climate change, in 2010 BES formally signed a protocol with the Évora University on the creation of a chair on renewable energies.

The chair aims to promote 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. In this sense, it will supplement the Group's provision of financing and financial products to renewable energy projects and companies.

With the funds raised through the WWF card, the Word Wildlife Fund invested in the organisation and promotion of the 'Hour of the Planet' in Portugal. The 'Hour of the Planet' blackout is today one of the largest voluntary platforms in the fight against climate change. In 2011, 5,200 cities, including the 10 most populated cities in the world, participated in this event.

The 'Green Heart of Cork' project is the new project of WWF about conservation of the largest patch of oak in the world and the largest Iberian aquifer. The purchase of the WWF card contributed to the conservation of oak-cork groves, the natural habitat of the Iberian lynx and the imperial eagle. The intervention in the Guadiana Valley / Vascão Brook Natural Park, in the Guadiana river basin, aims to restore the river's ecological integrity and recuperate degraded areas, namely as a result of fire and in danger of desertification, as well as the forest species and habitats in these areas.

This important and considerable support provided by BES group completes a strategic cycle of investment in the fight against Climate Change.

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

Banco Espírito Santo Angola (BESA) is a founder member of the Planet Earth National Committee (Angola). Promoted by UNESCO, the committee brings together private and public organisations, companies and not-for-profit outfits with the objective of finding mechanisms for environmental protection in Angola. 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.

Partnership with the United Nations High Commissioner for Refugees

BESA is one of the main partners of the United Nations High Commissioner for Refugees in the implementation of a Portuguese Teaching Programme for thousands of refugees.
The programme, established in 2007, aims to contribute to a rapid and effective reintegration of the Angolan refugees who return to the country after being forced to take shelter in neighbouring countries. While having a significant impact on the life quality of thousands of families, the programme also enables these Angolan citizens to take an active role in the construction of a strong and productive society.

The environmental footprint

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

BES Group has set reduction objectives for 2008-2013. In order to meet these objectives, the Group's policy for the environment is supported by an environmental management programme involving the definition of targets and specific steps, and the monitoring and assessment of outcomes.

Environmental footprint: objectives and results

	Energy	CO_2 Emissions [2]	Paper	Water
2008 - 2013 Reduction Objectives [1]	-11%	-11%	-12%	-11%
Evolution 2008-2011	-8%	-41%	-5.6%	-10%

[1] Scope: BES Portugal
[2] Emissions from the use of electricity

In 2011 the Bank continued to reduce all its consumptions with an impact on the environment, and in particular energy consumption, which dropped by 8%, approaching the target set for 2013.

Energy and emissions

Reducing energy consumption is one of the major challenges faced by the Bank in the minimisation of its environmental footprint. Energy is crucial for the Bank's efficient and safe management of operations, but there are ways of achieving greater efficiency in the use of this resource.

In 2011 the Bank, through its Sustainability Committee, decided to accelerate the energy consumption reduction process by implementing an Energy Efficiency Internal Programme focused on the rational use of energy, which started to be implemented during the first quarter. On account of its scope and integrated management of the various structures in different environments and geographies, this is indeed a pioneering initiative in Europe. Using an innovating solution that combines energy and environmental monitoring equipment with an energy management software application, BES now has the capacity to read and manage in real time all the energy consumptions of its entire network of branches and premises. This solution permits to centralise information, analyse consumptions and trends, detect opportunities for energy saving, determine energy waste, and assess compliance with targets. This is complemented by monitoring of the network by a 'virtual energy manager', reporting, monitoring of warning signals, and monthly training and awareness raising sessions in the branches.

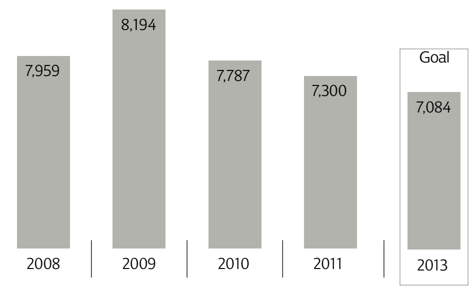
To further reinforce the Energy Efficiency Internal Programme, all the employees were sent a note entitled "- = +" intended to encourage responsible and efficient values and behaviours. This note was communicated by e-mail, internal competitions, merchandising and the Manual of Good Energy Efficiency Practices. To assess the impact of the programme and the effectiveness of its communication, a survey was conducted to all employees. In this survey, 100% of the employees said they were aware of the energy efficiency system installed by BES, and 75% stressed that they had adopted more responsible attitudes not only at work but also at home.

An effective communication of the “Energy Efficiency Internal Programme” to all employees is essential for the programme to work, in so far as it basically seeks to change behaviours viewing the achievement of higher efficiency levels. After its implementation in 2011, in the following years the programme will be supplemented by wider measures, as considered justified by BES Group in operational and financial terms.

In 2011, the Group reduced the use of electricity per employee by 8% relative to 2008, the base year for the objectives. The Energy Efficiency Internal Programme was crucial for this reduction, in so far as it permitted to engage all the employees in the effort to cut down electricity consumption.

Electricity Consumption employee

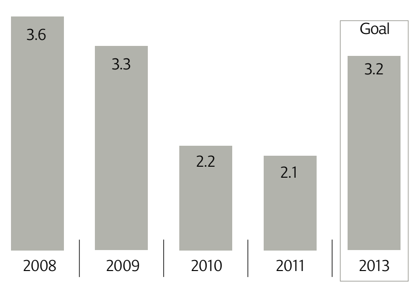
(kWh/ Employ)



Does not include the data center's electricity consumption

CO_2 Emissions

(ton/ Employ)



Emissions arising from the use of electricity declined by approximately 41% between 2008 and 2011, as a result of a decrease in energy consumption and a reduction in the emission factors within the national energy mix. Compared to 2010, CO_2 emissions arising from electricity consumption per employee dropped by 5%, to 2.1 CO_2 tonnes.

Every year the Bank makes an inventory of the emissions arising from its activity, namely from the use of fuels, employee trips or electricity consumption. This inventory allowes to evaluate effectiveness of implemented actions.

In 2011 the Bank's policy on business trips was incorporated in its regulations, with the objective of reinforcing its binding nature. These regulations also establish that videoconferencing should always be considered as the first alternative to a business trip.

In 2011 there were around 780 videoconferences involving the various geographies where BES Group operates.

Carbon Disclosure Project

In 2011, BES Group's score in the Carbon Disclosure Leadership Index stabilised at 82%:

This score places BES among the financial institutions which best disclose a consistent response to climate change. The Bank also featured prominently in the Carbon Disclosure Project 2011 – Iberian Report, where it ranked in second position within the financial institutions in the Iberian Peninsula.

The Carbon Disclosure Project (CDP) acts on behalf of private and institutional investors to elicit listed organisations to disclose and make available information about their strategic approach to climate change, thus enabling investors to assess their level of preparedness to address the challenge of climate change.

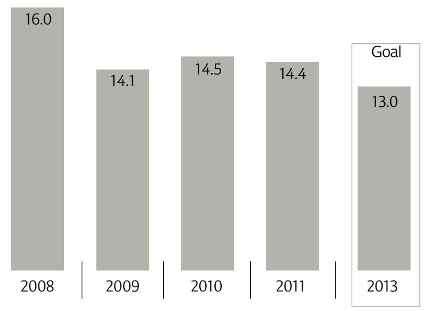
Water

In 2011 the Bank achieved a 10% reduction in water consumption relative to 2008, thus being very close to attaining the target set for 2013 of 13 m^3 per employee. Compared to 2010, the reduction was approximately 1%, translating the communication and awareness raising efforts undertaken viewing a more responsible use of water, which had increased in 2010.

This awareness raising effort combined with the installation of more efficient equipment, and the remodelling of equipment in the Bank's premises and branches will permit to reach the objective set for 2013.

Water Consumption per Employee

(m^3/ Employee)



Note: Does not include consumptions from Marquês de Pombal building, since these include consumptions from visitors, misrepresenting the analysis

Paper and waste

Paper is the most relevant material in the Bank's operational activities, and several measures have been implemented to reduce its consumption. The documents involved in the relationship with clients and suppliers are increasingly produced in digital form. Dematerialisation is an ongoing process that arises from the modernisation of the operations and leads to increased flexibility of communication.

Since 2008 the Bank has taken active steps to promote the dematerialisation of communication with its clients. In 2011 it offered its clients the possibility of receiving account and credit card statements by e-mail. During the year the number of account statements, credit card statements, and saving deposits certificates that were digitalised and ceased to be sent in paper format increased by 148,000, 45,000 and 152,000, respectively. In overall terms, at the end of 2011 the Bank had approximately 520,000 account statements and 122,000 credit card statements in digital form.

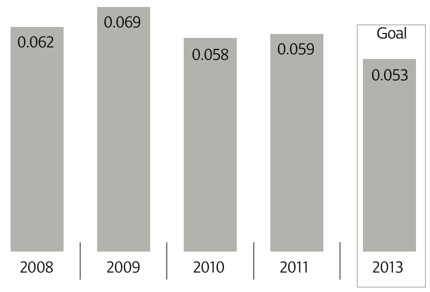
In 2007 the bank implemented a paper consumption rationalisation programme in the central services, backed by an internal ranking that monitors this consumption and communicates it to the various departments. The aim is to induce changes in the employees' behaviour and gradually achieve consumption reductions. From 2006 to 2011, this programme permitted to reduce these areas' total water consumption by 28%. The reduction target set for these areas in 2011 was 2%, this being largely surpassed as the actual reduction achieved was 8%.

Total consumption of white paper (central services and commercial network) dropped by 5.6% per employee between 2008 and 2011. In absolute terms, the Bank reduced white paper consumption for internal use by 6.9% compared to 2008.

The main categories of waste produced by BES Group are paper, cardboard and other consumables such as ink and toner cartridges. All these waste items are sent for recycling by licensed companies.

White paper consumption for item

(ton/ Employee)



The impact of BES's activity on biodiversity

Within the scope of the Business & Biodiversity partnership established between Banco Espírito Santo, the Centre for Research in Biodiversity and Genetic Resources (CIBIO) and the Institute for Nature and Biodiversity Conservation ("ICNB"), BES, in cooperation with the CIBIO, issues every year a report entitled "BES's Activity and Biodiversity". The purpose of this report is to assess the impacts on biodiversity and the environment arising from BES's activity, to identify opportunities for improvement and to propose concrete measures and steps to minimise such impacts. The report analyses two types of impacts: direct (resulting from the company's day-to-day activity) and indirect (resulting from its financial activity).

In 2011 BES showed significant improvements regarding its direct impacts, namely in indicators such as energy, CO_2 emissions (originating in electricity purchased) and water. The Energy Efficiency Programme under way has proven a very useful tool to achieve the reduction targets set for 2008-2013. The transports indicator registered an increase (in terms of both the car fleet and the fuel consumed) but on the other hand there were less air trips, which was considered positive.

CIBIO has classified as positive the use of the 'Sustainable Finance Toolkit' to analyse the social and environmental risks in project finance transactions.

Overall, CIBIO considers that in 2011 BES reaffirmed its commitment to consolidate its role as a pioneering and leading organisation in Portugal in the area of environmental sustainability in the financial sector. In particular, BES has emphasised biodiversity as a key element of its corporate and communication strategy and is currently the Portuguese bank with a more visible commitment to this area.

Prizes and Awards obtained in 2011

BANCO ESPÍRITO SANTO

Dow Jones Sustainability Indexes - Banco Espírito Santo was the first Portuguese bank to be included in the Dow Jones Sustainability Index.

FTSE4Good – BES is included in the FTSE4Good Index Series since 2007, an achievement that confirms its status as a socially responsible institution.

STOXX Global ESG Leaders Indices - in 2011 BES was included in the STOXX Global 1800 index, which tracks and rates companies with the best performance in three areas of sustainability: environmental (E), social (S) and governance (G).

Best in class no ASPI Eurozone® – BES is included in the ASPI Eurozone® index, which is composed of the 120 top-rated companies in the Eurozone, based on a best-in-class approach.

"Prime status" awarded by Oekom – BES was classified by Oekom, a sustainability rating agency, as a best-in-class company in the financial sector.

Engagement Rating Portugal 2011 - in 2011 BES ranked first among domestic financial institutions and second overall in a survey that classifies the more transparent companies at national and Iberian level, with a score of 83.8%, largely above the average.

Referencial Carbon Disclosure Project - in 2011 BES once again scored above the average for the European financial sector in an international index ranking companies' practices with regard to climate change.

Prémio Desenvolvimento Sustentável 2010/2011 – for the second year running, Banco Espírito Santo was considered the company that best developed its sustainability strategy at national level, in a survey conducted by Heidrick & Struggles.

Best Corporate/Institucional Internet Bank - awarded by the Global Finance magazine.

Prémio de Coleccionismo Corporativo da ARCO - The BESart - Banco Espírito Santo Collection won the Corporate Collecting Award attributed by the Friends of ARCO Association, in recognition of the continued support given by BES to contemporary art, and in particular to photography, which has allowed it to build a unique collection in Iberia.

"Top 10 Brands Portugal 2011" da Interbrand - Banco Espírito Santo led Interbrand's "Top 10 Brands Portugal 2011" survey, which makes it the most valuable brand within the companies composing the PSI20 index, the reference index of Portugal's stock exchange.

BANCO ESPÍRITO SANTO DE INVESTIMENTO

Best Investment Bank in Portugal, awarded by the World Finance magazine;

Best M&A House in Portugal, awarded by the Euromoney magazine;

Best Equities House in Portugal, awarded by the Euromoney magazine.

BES ANGOLA

Best Trade Finance in Angola, awarded by the Global Finance magazine;

Best Foreign Exchange Provider, awarded by the Global Finance magazine;

Best Emerging Market Bank, awarded by the Global Finance magazine;

Best Commercial Bank in Angola, awarded by the World Finance magazine.

Main Events in 2011

January

BES Group reports a consolidated profit for 2010 of EUR 510.5 million, with a return on equity of 8.6%. International activity contributed with 40% to this total.

Banco Espírito Santo completes the acquisition of a 25.1% stake in Moza Banco, through its subsidiary BES África, S.G.P.S., S.A.

BES University and the Portuguese Catholic University create an Advanced Management and Innovation Course for Entrepreneurs, a pioneering initiative in Portugal.

01 02 03 04

March

On March **28**, following the downward revision of the long term rating of the Portuguese Republic to BBB, from A-, Standard & Poor's downgrades the short and long-term ratings of Banco Espírito Santo to BBB/A-3, from A-/A-2. The long-term ratings remained on credit watch negative, while the short-term ratings were removed from credit watch.

The General Meeting of March **31** approves, among others, (i) the allocation of the 2010 net earnings of EUR 255,007,121.83; (ii) the partial amendment of the articles of association, namely the amendment of Article 14 and Article 16 (1 and 5); and (iii) the partial amendment of the General Meeting Regulation, namely the amendment of Articles 4, 5, 10, 13 and 14.

On March **31** Standard & Poor's again cuts the long-term rating of the Portuguese Republic, from BBB to BBB-, consequently downgrading the ratings of Portuguese banks. S&P downgraded the long-term rating of Banco Espírito Santo from BBB to BBB-. The long-term rating was removed from credit watch, while the short-term rating was rated at A3. The outlook remained negative.

April

As a result of the spreading of the Eurozone debt crisis and the persistent deterioration of the financing conditions of domestic economic activity, on April 6th the Portuguese government addresses a request for financial assistance to the European Commission.

6 April, Moody's downgrades the ratings of Portuguese banks, following the downgrade of the long-term rating of the Portuguese Republic from A3 to Baa1. Moody's also announces the downgrade of Banco Espírito Santo's long and short-term debt ratings to Baa2/Prime-2 from A2/Prime-1, remaining under credit watch negative.

19 April, DBRS Rating Agency initiates the coverage on BES, assigning the following rating: Senior Long-term Debt & Deposit rating: "A (low)" / Outlook "Negative" and Short-term Debt & Deposit rating "R-1 (low)"/ Outlook "Stable".
Simultaneously, DBRS assigns BES an Intrinsic Assessment (IA) of "A", reflecting its "strong credit fundamentals and intrinsic strength that are enabling BES to deliver positive earnings and weather the difficult environment". DBRS adds that "the sustained stress on the sovereign puts downward pressure on the final rating" of BES, thus positioning it one notch below the bank's IA level and at the same level as the long-term debt rating of the Portuguese Republic.

28 April, Banco Espírito Santo announces it has agreed with Cidade de Deus to sell ca. 78 million ordinary shares representing 4.1% of the voting capital of Banco Bradesco, S.A.
Manuela Marques wins the 7th edition of the BES photo prize, a joint initiative of Banco Espírito Santo and the Berardo Collection Museum, which in its new international format also includes the Pinacoteca do Estado de São Paulo.

Main Events in 2011

May

2 May BES reports first quarter 2011 results. Net income totals EUR 60.9 million, underpinned by the international activity. The results were impacted by deleveraging costs (gross value: EUR 41 million; net value: EUR 35 million) and the new tax on the banking sector (EUR 7.6 million).

16 May Banco Espírito Santo convenes an Extraordinary General Meeting for June 9th, after requesting permission from the Bank of Portugal to issue non-subordinated bonds with a Portuguese Republic guarantee up to EUR 1.25 billion. The Bank of Portugal requested that BES should change its by-laws in order to allow the Board of Directors to decide on increasing the share capital if the guarantee were to be executed, and also that BES should suppress the shareholders' pre-emption rights in case of a capital increase resulting from the execution of guarantees provided by the State.

17 May the Portuguese government addresses a letter of intent to the IMF and the European Commission where it undertakes to adopt a set of fiscal consolidation measures and structural reforms, ensuring the stability of the financial sector. The Memorandum of Understanding agreed with the official entities and released on the same date foresees the concession of external financing amounting to EUR 78 billion over a period of 3 years.

25 May, following the downgrade of the long-term rating of the Portuguese Republic from A (low) to BBB (high), DBRS downgrades the rating of Banco Espírito Santo to the same level of the sovereign rating of Portugal. DBRS also downgrades the short-term debt&deposits rating from R-1 (low) to R-2 (high), the same level of the sovereign short-term rating, with outlook revised from stable to negative.

The BES/BCSD 2010 Sustainability Journalism Prize, a joint initiative of Banco Espírito Santo and BCSD Portugal is awarded to journalist Alexandra Correia and photographer Luís Barra for their piece "Life in the great dams", published in the Visão magazine on October 14th, 2010.

The 2011 BES Biodiversity Prize is awarded, ex-aequo, to a natural extracts database project developed by Bioalvo, SA, a biotechnology firm, and a project on the conservation of leguminous-rich biodiverse pastures, developed by Fertiprado and the National Institute of Biological Resources.

05 06 07 08 09

June

5 June Portuguese legislative elections result on a shift in the political majority in the Assembly of the Republic. The new government is sworn in on June 21st.

The Extraordinary General Meeting of June **9** approves the amendment of BES's articles of association, namely the amendment of Article 4. The Board of Directors is authorised, upon favourable opinion of the Audit Committee, to increase the share capital, one or more times, through the issuance of ordinary shares or preferential shares, redeemable or non-redeemable, under the terms and conditions to be defined, up to the maximum amount of EUR 5,000,000,000.00. This authorisation is valid for a period of five years. The authorisation given to the Board of Directors applies to capital increases whether or not these are decided in connection to the provision of State guarantees.

July

7 July, following the Portuguese Republic downgrade from Baa1 to Ba2, Moody's announces the downgrade of the Portuguese Banks' debt guaranteed by the Portuguese State. BES's bond loan of January 19th, 2009, maturing on January 19th, 2012 is downgraded by Moody's from Baa2 to Ba1, and maintained on review for possible downgrade.

15 July the European Banking Authority (EBA) discloses the results of the European stress tests, carried out using the methodology and assumptions defined by the EBA and the ECB. Incorporating the effects of the measures executed and planned up to the end of 2011, BES's estimated Core Tier I would be 7.5% under the adverse scenario in 2012. This ratio, the highest among Portuguese banks, once again demonstrates the resilience of BES Group results.

19 July BES issues senior notes guaranteed by the Portuguese State in the amount of EUR 1.25 billion.

Banco Espírito Santo launches a renewed BESnet site, the internet banking service for individual clients. In addition to a totally new image, the language used is simpler and more accessible, and the service was made even more intuitive and functional.

August

1 August BES Group reports first half 2011 results. Net income totals EUR 156 million. The results were affected by the considerable strengthening of provisions due to the deterioration of risk within a deepening economic recession.

September

Banco Espírito Santo is the first Portuguese bank to enter the Dow Jones Sustainability Indexes (DJSI), the most relevant sustainability indexes at world level, where it is part of a restricted group of 15 banks composing the Dow Jones Sustainability Europe Index.

30 September Banco Espírito Santo signs a USD 300 million credit facility agreement with the maturity of 3 years with China Development Bank Corporation (CDB).

October

18 October the Board of Directors of Banco Espírito Santo convenes an Extraordinary General Meeting for November 11th to resolve on a proposal to increase the share capital through new contributions in kind up to EUR 790.7 million, through an exchange offer over securities issued by BES, BES Investimento and BES Finance. The Board of Directors also proposes to increase the maximum amount authorized for the Board to increase the Company's share capital from EUR 5 billion to EUR 7.5 billion.

20 October, following the downgrade of the long-term rating of the Portuguese Republic, DBRS downgrades the rating of Banco Espírito Santo to the same level of the sovereign rating, from BBB (high) to BBB, with negative trend. The short-term debt&deposits rating is maintained at R-2 (high), with negative trend.

27 October BES Group reports third quarter 2011 results. Net income fell by 66%, to EUR 137.8 million, due to the considerable reinforcement of provisions.

Also on October 27th the European Banking Authority's (EBA) releases the results of the market price valuation of the sovereign debt exposures held by Portuguese banks as at September 30th, 2011. Total capital needs for BES, applying EBA's methodology, was Eur 687 million, of which Eur 44 million resulting from the mark-to-market valuation of the sovereign debt exposure.

November

7 November BES signs a contract with Dagong Global Credit Rating Co, Ltd for this agency to rate Banco Espírito Santo and Banco Espírito Santo do Oriente.

The Extraordinary General Meeting of November **11th** 2011 resolves on the increase of the Company's share capital by new contributions in kind of up to EUR 786,946,959.99 through exchange offers over securities issued by BES, BES Investimento and BES Finance. The General Meeting also approves an increase, from EUR 5 billion to EUR 7.5 billion, in the maximum amount authorised for the Board of Directors to increase the Company's share capital through new cash contributions without the General Meeting's prior authorisation. In addition, the General Meeting authorises the suppression of Shareholders' pre-emption rights in the event of a capital increase resulting from the execution of the guarantees to be provided by the Portuguese State to the three non subordinated bond issues up to an aggregate amount of EUR 3.5 billion with maturity of up to 3 years.

10 11 12

December

2 December Banco Espírito Santo announces the result of the exchange offers on securities issued by BES, Banco Espírito Santo de Investimento, S.A. and BES Finance, Ltd., which took place between November 14th and November 30th. As a result of the exchange offers a total of 294,573,418 new ordinary, book-entry, registered shares with no par value and 81,736 subordinated bonds with EUR 100 par value each were issued by BES. Upon issuance of the new 294,573,418 shares, BES' share capital increases to EUR 4,030,232,150.40, represented by a total of 1,461,240,084 shares.

8 December Banco Espírito Santo informs about the results of the capital exercise according to the methodology defined by the European Banking Authority (EBA). The results were calculated based on the assumptions and methodologies defined by the EBA for the capital exercise conducted in cooperation with the Bank of Portugal. Based on this methodology, the capital needed to reach a core tier I ratio of 9% for BES Group was EUR 810 million as at September 30th, 2011, of which EUR 121 million correspond to sovereign capital buffer. Furthermore, BES also informs the market that as at September 30th, 2011 it had European public debt of EUR 3.6 billion (4% of Net Assets), composed of Portuguese sovereign debt, of which 84% maturing within 1 year.

16 December the Bank of Portugal announces the first global results of the Special Inspections' Programme (SIP) undertaken as part of the measures and actions agreed by the Portuguese authorities for its financial system under the Programme of Economic and Financial Assistance agreed with the IMF/EU/ECB.
This exercise focused on the valuation of credits amounting to EUR 44.1 billion, covering 85% of BES Group's total credit portfolio. This valuation concluded that there is a need to reinforce the value of individual impairments registered in the Group's consolidated financial statements by EUR 125 million. As of September 2011, BES Group had already constituted additional impairments for said credits amounting to EUR 21.0 million.
As at 31 December 2012 the total provision charged in relation to the SIP amounted to EUR 42.7 million.

On December **23rd** Banco Espírito Santo makes a bond issue of EUR 1 billion guaranteed by the Portuguese State.

2011 in pictures

February
“Rendimento CR” Account
BES strengthens its competitive position in customer funding, launching a new wave of the “Rendimento CR” account, featuring Cristiano Ronaldo: I don’t like to lose, even when playing for love. That’s why I put my money to grow in BES, where I always win”.

April and May
“Rendimento CR” Account
New wave of the “Rendimento CR” account: “I don’t like to lose, even when playing for love”.

July
“Ten” Savings Account
You no longer need a lot of money to start saving. 10 by 10, you can save with BES. A flexible planned saving solution, starting at EUR 10 per month.

BES Express Bill

01 02 03 04/05 06 07

March
BES Saving Solutions
BES challenges the Portuguese to save more, addressing them a strong and direct message: “Think about yourself, save”.

June
Young Professionals 18.31
An innovative solution for young people embarking on a career, adapted to the current context in Portugal: “I may not have a huge salary, but I have an account that was specially designed for me”.

New BESnet, a great new look
Launch of the new BESnet internet service, with an improved design and simpler and more intuitive browsing facilities.

January
MGM Action – ipad offer

August

BES Credit Cards "some of it goes back to you"
Launch of an innovative credit card solution in which part of what you spend in most of your daily purchases is returned to you. "When paying with BES cards in BES point of sale terminals for health, education, restaurants, clothes and footwear purchases, part of what you spend is returned to you".

Foreign Residents
Specific solutions for Foreign Residents.

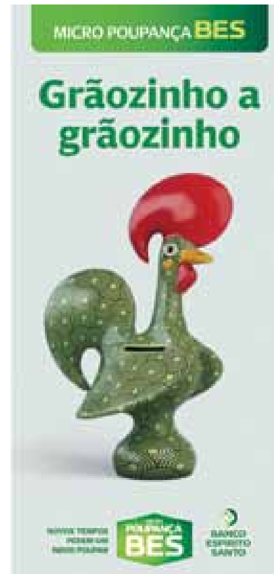
September and October

"Rendimento CR" Account
A boost to attracting customer funds, the campaign urges you to go along with Cristiano Ronaldo: "I don't hesitate when faced with a great opportunity", i.e., the new rate offered by the "Rendimento CR" account.

The first bank to integrate the '**Dow Jones Sustainability Indexes**', BES celebrates this event with a campaign in the national and international print media.

November

Microsaving
BES's microsaving concept, and its bet on the creation of products that stimulate new saving habits reinforces its positioning as a "Saving Bank".



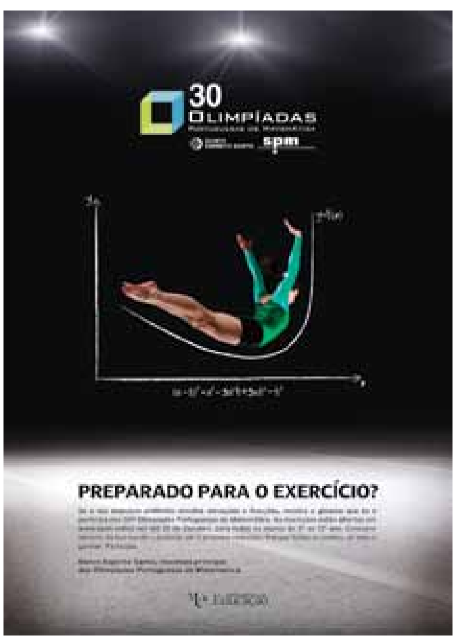
08

09/10

11

12

Within the scope of the Financial Literacy programme, BES is the main sponsor of the 30th **Mathematics Olympiads**.



BES Family Budget – This is a free-of-charge online service that organises your income and expenses into different categories and charts their monthly evolution, so that you always know on how much you can count. New times call for new ways of saving.

BES Junior Saving – The 8th edition of BES Junior Saving launches the new BES|Agatha Ruiz de la Prada piggy bank: GIZ, the piggy bank that teaches you how to set saving targets.

Launch of an institutional campaign on the print media under the concept "7 numbers tell you more than one thousand words".

December

BES Venezuela
Early disclosure of the opening of a BES branch in Caracas.

Corporate Bodies

The corporate bodies of Banco Espírito Santo are elected by the General Meeting of Shareholders.

The management of Banco Espírito Santo is entrusted to a Board of Directors responsible for exercising the broadest powers of management and representation of the company and for performing all acts as may be required and convenient in the pursuit of the Bank's activities. It is also part of the responsibilities 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 specialised committees with management or supervision responsibilities.

BES's Board of Directors consists of 25 members, of whom seven are non executive and qualified as independent. The day-to-day running of the company is delegated to an Executive Committee comprising nine members. From the independent members of the Board of Directors, three are members of the Audit Committee and three integrate the Corporate Governance Committee. The Chairman of the Board of Directors is also qualified as independent.

BES's Board of Directors holds ordinary meetings at least quarterly and extraordinary meetings 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/ir and in Chapter II of the Corporate Governance Report), in 2011 the Board of Directors monitored, assessed and supervised the activity of the Company, in strict coordination with the Executive Committee and with no restraints.
In line with the Board of Directors' responsibility for promoting the activity of the specialised committees, the 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 2011 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.

In so far as the day-to-day management of the Company is delegated to the Executive 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 2011, 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 2011 the Board of Directors held 8 meetings, having discussed and passed resolutions on the following main issues:

- Approval of BES Group's results for 2010 and first three, six and nine months of 2011;

- Approval of the proposed allocation of the 2010 results;

- Approval of the proposals to be submitted to the Annual General Meeting of March 2011 concerning: (i) the Management Report, the Corporate Governance Report and the remaining consolidated and individual reporting documents relative to fiscal year 2010 accounts; (ii) the remuneration policy of BES's senior officers and the creation of a variable remuneration plan; (iii) the partial amendment of the Company's articles of association;

- Approval of the proposals to be submitted to the Extraordinary General Meeting of June 2011 concerning: (i) partial amendment of the articles of association, namely the amendment of Article 4; (ii) suppression of shareholders' pre-emption rights, in case the Board of Directors resolves on a capital increase, under the terms of Article 4 (2) of the Company's Articles of Association, with the objective of converting credits arising from the guarantee provided by the Portuguese State to the issuance of non subordinated bonds, if that guarantee were to be executed;

- Approval of the proposals to be submitted to the Extraordinary General Meeting of November 2011 concerning: (i) the partial amendment of the articles of association, namely the amendment of Article 4 (3); (ii) the suppression of shareholders' pre-emption rights, in case the Board of Directors resolves on a share capital increase, under the terms of article 4(2) of the Company's Articles of Association, with the objective of converting credits arising from the guarantee provided by the Portuguese State to the issue of non subordinated bonds up to the maximum amount of EUR 1,000,000,000.00, EUR 1,000,000,000.00 and EUR 1,500,000,000.00, if that guarantee were to be executed; (iii) the selection of an independent certified auditor to draw a report on the contributions in kind to be made within the scope of the share capital increase; (iv) the increase of the Company's share capital by up to EUR 786,946,959.99 through new contributions in kind consisting of securities issued by the Company, Banco Espírito Santo de Investimento, S.A. and BES Finance Ltd., targeted by offers for exchange to be launched by the Company, and consequent amendment of Article 4 (Share Capital) of the articles of association; (v) amendment of Article 1 (4) of the «Regulation on the Right of Directors to a Pension or Complementary Pension Benefits for Old Age or Disability».

- Appointment by co-optation of Board members (i) Michel Jacques Mathieu, to replace Jean-Yves Hocher and (ii) Vincent Pacaud, to replace Michel Goutorbe.

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[1]
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
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Feixial de Goes
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
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca
Antônio Bornia
Marc Olivier Tristan Oppenheim
Michel Jacques Mathieu
Vincent Claude Pacaud

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
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
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 Statutory Auditor ("ROC" or SA)
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)

(1) Board members Jean-Luc Louis Marie Guinoiseau and Pedro José de Sousa Fernandes Homem have resigned due to retirement, effective on December 23rd and 30th, respectively.
Board member José de Albuquerque Epifânio da Franca resigned his position in January 2012, effective at the end of February.

The BES Shares – Value Creation

STOCK EXCHANGE:	NYSE Euronext
ISIN:	PTBES0AM0007
BLOOMBERG CODE:	BES PL
REUTERS CODE:	BES.LS
NUMBER OF SHARES:	1,461,240,084
NOMINAL VALUE:	
SHARE CAPITAL:	EUR 4,030,232,150,405

On December 31st, 2011 the share capital of Banco Espírito Santo was EUR 4,030,232,150.40, represented by 1,461,240,084 ordinary shares with no nominal value, listed on the NYSE Euronext.

Main Stockmarket Indicators

			31-Dec-10 (5)	31-Dec-11	Change
Share Data					
01. Number of Shares Outstanding	(thousand)		1,166,667	1,461,240	294,573
02. Weighted Average of Shares Outstanding (1)	(thousand)		1,166,667	1,187,255	20,588
03. Last Closing Price	(eur)		2.88	1.35	(53.1%)
04. Market Capitalisation	(eur million)	(01x03)	3,360	1,973	(41.3%)
Consolidated Financial Data (Year-End)					
05. Equity attributable to Shareholders (2)	(eur million)		6,310	5,604	(11.2%)
06. Equity attributable to Ordinary Shares (3)	(eur million)		5,440	5,363	(1.4%)
07. Net Income	(eur million)		556.9	(108.8)	....
08. Net Income attributable to Ordinary Shares	(eur million)		**523.4**	**(3.1)**	**....**
09. Gross Dividend of Ordinary Shares	(eur million)		147.0	-	-
10. Pay Out Ratio of Ordinary Shares	(%)	(09/07)	26.4	-	-
Per Share Data					
11. Book Value per Share	(eur)	(06/01)	4.66	3.67	
12. Earnings per Share	(eur)	(08/01)	0.45	0,00 (4)	
13. Gross Dividend per Share	(eur)	(09/01)	0.126	-	
Price as a Multiple of					
14. Book Value	PBV	(03/11)	0.62	0.37	
15. Net Income	PER	(03/12)	6.40	....	
Price Return on					
16. Net Income	(%)	(12/03)	15.63	0.00	
17. Dividend (Dividend Yield)	(%)	(13/03)	4.38	-	

(1) Average number of ordinary shares weighted by permanence time
(2) Total Equity – minority interests
(3) Total Equity – minority interests – preference shares – other equity instruments
(4) It was considered the weighted average number of shares for Dec.11
(5) Dec.10 restated according to the change in the accounting policy for booking actuarial deviations

BES Shares performance

The European sovereign debt crisis and its ramifications were the key factor in the equity markets' negative performance in 2011, mainly affecting the European banking sector, which underperformed general markets. The Portuguese banking sector was no exception, especially after Portugal's request for international financial assistance. At the end of 2011 BES shares were outperforming the Portuguese banking sector. On December 31st, 2011, BES was the largest Portuguese listed bank, with a market cap of EUR 1,973 million (close price at December 30th, 2011: EUR 1.35).

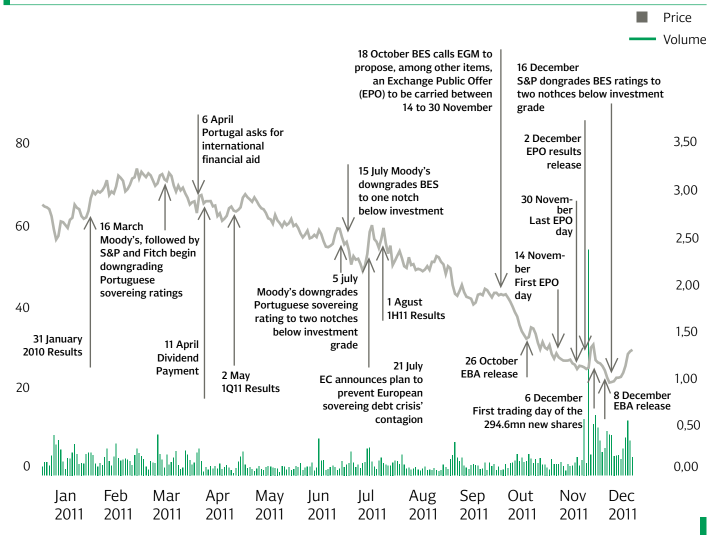
Events that influenced the BES share in 2011

Date	Event	Var 1D	Var YTD
31/01	BES reports 2010 results	+3.8%	+2.8%
16/03	Moody's downgrades the rating of the Portuguese Republic	-2.6%	+9.0%
24/03	Fitch downgrades the rating of the Portuguese Republic	-1.9%	+6.7%
24/03	S&P downgrades the rating of the Portuguese Republic	-1.9%	+6.7%
28/03	S&P downgrades the rating of the Portuguese banks, including BES	+0.6%	+7.3%
30/03	S&P downgrades the rating of the Portuguese Republic	-1.1%	+3.6%
1/04	S&P downgrades the rating of the Portuguese banks, including BES	+1.2%	+1.6%
4/04	Fitch downgrades the rating of the Portuguese Republic	+0.3%	+1.9%
5/04	Moody's downgrades the rating of the Portuguese Republic	-1.2%	+0.7%
6/04	Moody's downgrades the rating of the Portuguese banks, including BES	-1.0%	-0.3%
6/04	BES shares trade ex-dividend	-1.0%	-0.3%
7/04	Portuguese Government officially requests financial assistance from the European Commission	+4.2%	+3.8%
19/04	DBRS initiates rating coverage of BES	-1.1%	-4.2%
2/05	BES reports 1st quarter 2011 results	-1.2%	-1.7%
5/05	Interim government announces signature of memorandum of understanding with the EC/IMF/ECB, which includes a plan for the deleveraging, funding and capitalisation of the Portuguese banking system	+4.6%	+3.1%
13/05	Bank of Portuguese officially releases new capital ratio requirements for the Portuguese banking sector: 9% in December 2011 and 10% in December 2012	-1.0%	+2.0%
24/05	DBRS downgrades the rating of the Portuguese Republic	-1.3%	-5.7%
25/05	DBRS downgrades BES's rating	+2.5%	-3.3%
05/06	Legislative elections – new government takes office on 21/06	- 2.1%	-7.2%
30/06	BES announces partial repurchase of preference shares to reinforce capital	+3.7%	-10.8%
5/07	Moody's places Portuguese Republic rating two levels below investment grade	-5.7%	-14.7%
7/07	Moody's places the rating on BES's bond issue guaranteed by the State one level below investment grade	+0.8%	-14.1%
15/07	Moody's places the rating on the Portuguese banks, including BES, one level below investment grade	-4.5%	-4.4%
15/07	EBA discloses stress test results	-4.5%	-24.4%
19/07	BES issues EUR 1.25 billion senior notes guaranteed by the Republic of Portugal	+6.7%	-17.8%
21/07	EU summit agrees on measures to avoid contagion of the European sovereign debt crisis	+9.0%	-10.4%
1/08	BES reports 1st half 2011 results	-2.5%	-16.7%
30/09	BES signs first medium/long term Credit Facility Agreement with China Development Bank since April 2010	-1.7%	-31.7%
6/10	S&P reaffirms Portuguese Republic rating	+1.4%	-32.6%
7/10	Moody's downgrades the rating of the Portuguese banks, including BES	-1.0%	-33.3%
12/10	European Commission announces measures to recapitalise the European banking sector	-2.2%	-34.0%
18/10	BES announces it will submit to the GM a proposal to increase the share capital through a public exchange offer	-1.5%	-40.1%
21/10	DBRS downgrades BES's rating	-1.7%	-45.8%
26/10	EBA releases results of the exercise on European banks capital needs	+8.7%	-45.3%
27/10	BES reports 3rd quarter 2011 results	-0.3%	-45.4%
11/11	BES shareholders approve capital increase	+2.8%	-55.4%
14/11	First day of the public exchange offer	-1.2%	-55.9%
30/11	Last day of the public exchange offer	-1.9%	-60.3%
2/12	BES announces results of the public exchange offer	+16.5%	-53.5%
6/12	First trading day of the 294.6 million shares issued in BES's capital increase	-12.4%	-57.5%
8/12	EBA releases results of the exercise on European banks capital needs	-3.8%	-59.3%
16/12	Bank of Portugal publishes results of Special Inspection Programme	-1.0%	-63.9%
16/12	S&P downgrades the rating of the Portuguese banks, including BES	-1.0%	-63.9%

Liquidity

The average number of BES shares traded per day in 2011 was 3.8 million, up by 24.1% from 2010, when an average of 3.1 million shares were traded daily. The increase in the daily number of shares traded was particularly sharp in the last quarter of the year, mainly as a result of the listing of new shares issued in the capital increase carried out in the period. The liquidity of the BES shares in 2011 as measured by their average daily trading volume was EUR 8.2 million (EUR 10.8 million in 2010).

BES share price and trading volume in 2011



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 2011
Euronext Lisbon PSI Financials	PSIFIN	48.872
PSI-20	PSI20	4.003
STOXX Europe 600 Optimised Banks	SXO7P	0.230
STOXX Europe 600 Banks	SX7P	0.220
WT International Midcap Dividend	DIMIV	0.217
Euronext-100	N100	0.206
Bloomberg Europe Banks & Financial Services	BEBANKS	0.154
S&P Europe 350 Financials	SPEURO40	0.105
Bloomberg European Financials	BEFINC	0.101
EURO STOXX	SXXE	0.060
S&P Euro	SPEP	0.044
Bloomberg European 500	BE500	0.038
S&P Euro Plus	SPEUR	0.029
S&P Global 1200 Financials	SGFS	0.028
STOXX Europe 600	SXXP	0.020
S&P Europe 350	SPEU	0.019
Bloomberg European 500 (traded in Euro)	BE500E	0.018
S&P Global 1200	SPGLOB	0.005
PSI Geral	BVLX	3.886
S&P Euro Financials	SEUFINL	0.23
S&P Europe 350 Banks	SEBANKX	0.198
FTSE4Good Europe	4GEU	0.026
FTSE4Good Global	4GGL	0.011

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.

In 2011 BES was included in the Dow Jones Sustainability Indexes (DJSI), the most relevant sustainability indexes at world level, where it integrates the restricted group of 15 banks listed on the Dow Jones Sustainability Europe Index.

The DJSI were launched in 1999 as the first global financial benchmark of sustainability performance, being linked to the New York Stock Exchange. The companies listed in the DJSI are classified as best-in-class on long term value creation for shareholders, as a result of their management of economic, environmental and social risks. The DJSI' performance screening affords investors a selective approach to their investment requirements.

Shareholder Structure

Banco Espírito Santo has had a stable shareholder structure since 1992. BESPAR, with a stake of 35%, holds the interests of Espírito Santo Financial Group and an indirect stake of Crédit Agricole, which has been a partner of the Espírito Santo Group since 1986.

From November 14th to November 30th 2011, BES launched exchange offers on securities issued by BES, Banco Espírito Santo de Investimento, S.A. and BES Finance, Ltd., as a result of which it issued 294,573,418 new ordinary shares. Upon conclusion of this operation BES's share capital was EUR 4,030,232,150.40, represented by 1,461,240,084 ordinary, book-entry, registered shares with no par value.

Following this operation Crédit Agricole held an 8.63% direct stake in BES, and a 1.71% stake through BES Vida. Banco Bradesco, through Bradport, and the Portugal Telecom Group, own 4.83% and 2.09%, respectively, of BES's share capital. The free float is currently 49.45%.

Silchester, which has a qualified holding in BES since 2010, continued to increase its stake during 2011 (to 5.9%, corresponding to 62.9 million shares, in June, and to 6.4%, or 75 million shares, in September). On December 31st, 2011, following BES's capital increase, Silchester had a 5.7% stake in BES, corresponding to 82.3 million shares. Silchester International Investors LLP is a UK based investment management firm. Silchester invests client assets in publicly traded non-US equity securities.

At December 31st, 2011, BES' main shareholders were:

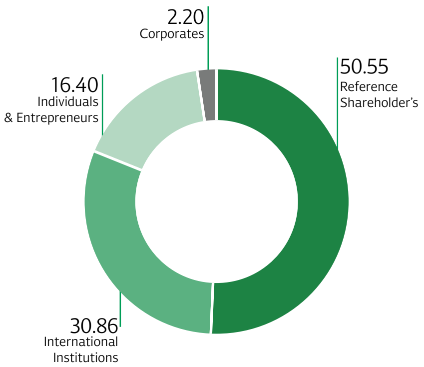
Shareholder	%	
	Dec. 10	Dec. 11
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	40.00	35.00
CRÉDIT AGRICOLE, S.A	10.81	8.63
BRADPORT, SGPS, S.A*	6.05	4.83
SILCHESTER INTERNATIONAL INVESTORS LIMITED (Reino Unido)	5.41	5.67
"PORTUGAL TELECOM, SGPS, S.A (through PT Prestações-Mandatária de aquisições e gestão de bens, S.A.)"	2.62	2.09

* Portuguese firm wholly owned by Banco Bradesco (Brazil)

As of December 31st, 2011, the Bank had more than 36,000 registered shareholders and the following shareholder structure:

Shareholder Structure as of December 31st, 2011

(%)



The weight of institutional investors in BES's capital structure increased to 30.9%, from 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 of the Corporate Governance Report).

Despite the difficult economic environment, the BES Group continued in 2011 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 200 meetings with investors. In addition, the Bank also participated in the following international conferences:

- HSBC Southern European Financials Conference, in London;

- Goldman Sachs Spanish and Portuguese Banks Symposium, in London;

- Morgan Stanley European Financials Conference, in London;

- UBS Global Financials Conference, in New York;

- Portuguese Day, promoted by BES Investimento and the NYSE Euronext, in New York;

- Nomura Financial Services Conference, in London;

- BBVA Iberian Conference, in London;

- KBW European Financials Conference, in London;

- BPI VIII Iberian Conference, in Lisbon.

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 propose to the General Meeting, for approval, that the company's net loss of the year, amounting to EUR 133,089,418.85, be allocated to the balance sheet item "Other reserves and retained earnings".

Research on BES

A total of 14 analysts covered BES shares throughout the year 2011. The average price target based on reports published up to December 31st was EUR 2.5 per share, with an upside potential of 85% on the closing price on that date (EUR 1.35). With 43% "Buy" recommendations and 43% "Hold" recommendations (in the year to December 2011), BES continued to be the bank in Iberia with the largest percentage of "Buy" recommendations.

Stakeholder engagement

In 2011 BES Group carried out a stakeholder consultation which covered its own employees, clients, the media, investors, financial analysts specialised in sustainability, suppliers, nongovernmental organisations, university lecturers, and organisations with an impact or influence on the sustainability agenda.

This survey not only validated the Group's approach to sustainability, but, more importantly, it also permitted to bring up the most important issues for these stakeholders, which have been defined according to their impact on BES Group and the Group's impact on them.

The key material issues identified were ethics and accountability in the relationship with the stakeholders, customer satisfaction, financial inclusiveness of individuals and businesses, eco-efficiency in the Bank's branches, premises and operations, and employee training and development. These issues are all dealt with in this report and also in BES Group's website.

As a supplement to this regular assessment of the material issues, the Bank maintains permanent dialogue and consultation mechanisms that permit to identify, manage and communicate relevant themes and expectations on an ongoing basis.

Stakeholder Dialogue Channels

Stakeholder	Dialogue Channels
Employees	• BES Group Annual Congress • Human Resources Portal • Intranet / BESweb • 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 • 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

Employees

In 2011, 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 results-driven working environment.

In 2011 the Bank approved a Human and Labour Rights Policy, which further reinforced its internal regulations, labour practices and overall corporate culture of protection and respect for people and human rights in all the geographies where it operates. First and foremost, the Group promotes the respect for the national legislation and regulations, while also stressing the need to abide by the United Nations Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and the International Labour Organisation's principal conventions.

In 2012 the Bank will provide training on human rights, clearly explaining the content of the policies and principles that govern its activity, with the objective of spreading and consolidating an effective awareness to and implementation of this policy.

With the same objective in mind, in 2011 the Bank put into practice a policy of Non Discrimination and Equal Career Opportunities applying to the admission, remuneration, assessment and career development of all employees. This policy is implemented through the Bank's internal regulations that govern all the employee professional development processes.

At December 31st, 2011, BES Group had 9,863 employees spread over four continents. Of these, 7,557 (76.6%) worked in Portugal and 2,306 (23.4%) abroad.

Human Resources Geographic Distribution

Country	Dec.10	Dec.11
Portugal	7,584	7,557
Rest of Europe	946	856
Spain	596	567
United Kingdom	277	210
Other	73	79
Africa	923	1,047
South America	202	197
North America	182	178
Asia	21	28
TOTAL	**9,858**	**9,863**

Activity expansion in Africa, namely in Angola and Cape Verde, justifies the increase in the number of employees in the region, which was compensated by an overall decrease in the other geographical areas. The number of employees thus remained practically unchanged in 2011.

Human Capital

Gender	Men/55%		Women/45%			
Age Group	<30	15%	30-50	68%	>50	17%
Staff rotation rate		11%				
Average hours of training		32				
Absenteeism rate		2.8%*				

* The absenteeism rate does not consider absences for maternity or paternity leave

The Group continues to make an effort to rejuvenate and qualify its staff as it works hard to build loyalty among 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 ("SOI"), 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 2011, 74 employees moved to new roles, 943 were promoted on merit and 100 on seniority, accounting in all for 13% 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 BES Group's overall financial results and the team's results.

Training and Career Management

Attracting and retaining the best professionals, a training plan, internal mobility and evaluating and rewarding merit – these are the key pillars for the development and career advancement of BES Group employees.

Training represents one the most important investments made by BES Group viewing the construction of a competitive workforce.

The training methods used range from e-learning to in-class sessions, coaching and on-the-job training. The objective is to provide the Employees with the technical and behavioural skills required to create value for the Clients and for the Group.

In 2011 the Group provided an average of 32 hours of training to each employee. The training plan addressed the specific behavioural and technical requirements of the various businesses and functions within the Group.

School Branch

The constantly-felt need to reinforce employee training, innovation in financial activity, the clients' increasing requirements, and the need to improve the quality of customer service, all these factors led the Bank in 2011 to redefine the role of the School Branch and to reinforce its capabilities as a training tool.

The methodology used (on-the job) is supported by a number of tools that enhance the training process, namely a prior diagnosis of the main deficiencies that must be addressed through training.

In addition to the various existing programmes to "recycle/requalify" the employees in the various functions of the commercial area, specific programmes are also created, as deemed necessary. The purpose of the School Branch is not only to upgrade the skills of the commercial area's staff but also those of employees in the Central Department that regularly interact with the commercial network.

BES Attitude Plan

Never losing sight of its strategic "Customer Focus" objective, BES Group has continued to develop the BES Attitude Plan, which is geared to improving the quality of customer service and deepening the relationship with the Clients.

In 2011 the BES Attitude programme was extended to the entire Retail Commercial Network, and its contents were redefined in accordance with the conclusions drawn from a previously conducted quality diagnosis and assessment of the network's needs.

More than a mere training programme, BES Attitude in an integrated project where every employee contributes towards the final objective: Customer Focus and Quality Leadership.

BES Talent

The purpose of the BES Talent Pool is 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. Once training is completed, a final report is drawn up which identifies the employees selected from the talent pool to occupy future positions as managers of branches and corporate centres.

The retention rate among these Employees is 99%, which proves that the programme fulfils the objectives for which it was created, namely to identify and retain talented employees for the role of future managers of BES's branches and corporate centres.

BES University

Now in its third year, the BES University acts as a bridge between BES Group and the academic community, fostering the development of programmes and contents that fit the Bank's reality and culture while benefiting from the high standards offered by the best higher education schools.

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 2011 the Executive Master programme, addressed to high potential employees who need to develop key skills, was held for the second time. BES University also held seminars open to all employees, on themes such as "the Challenges of Entrepreneurship", "Ethics in the Workplace", or "The Challenge of the Global Markets". The 17 seminars held in 2011, conducted by internal and external experts of high renown, permitted to share knowledge and enrich the Group's human capital.

Since BES University's creation, 122 employees participated in the Executive Master programme, 79 attended post-graduation courses and 113 took first degrees.

International Careers

BES Group's internationalisation strategy and its presence in international markets offers employees the opportunity of a career abroad.

Through its expatriation policy – International Mission – the Group helps expatriate employees adapt to their new reality, providing them with social and cultural training on the region, language courses and support to their families.

International Traineeships

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 BES Group for periods of six months to one year;

- Cross-border 10-month traineeships at BES Portugal for young Spaniards;

- The Lisbon MBA programme, jointly promoted with the Portuguese Catholic University and Universidade Nova de Lisboa, facilitates the hiring of great potential students from several nationalities to join BES's operations abroad.

Satisfaction and Motivation

BES conducts an annual survey to measure employee satisfaction and gauge the social climate in the company.

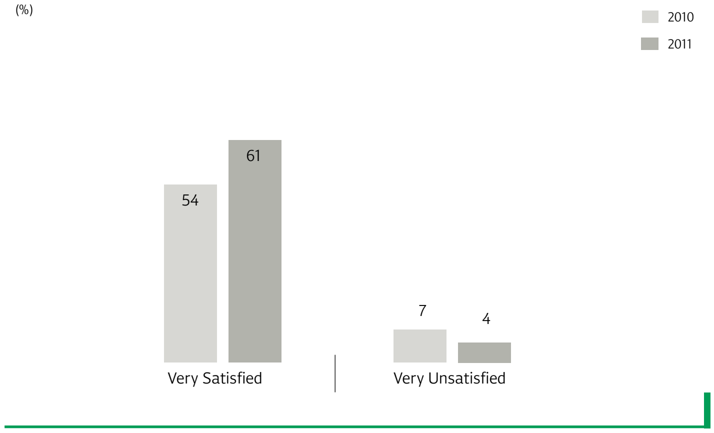
This survey permits to diagnose potential problems of lack of motivation or dissatisfaction with the job or the company. The Human Resources Department monitors the departments or business units with the poorer results in these surveys, altering practices or proposing solutions to improve employee motivation and satisfaction, and consequently avoid the loss of productivity. The results of the 2011 survey showed that satisfaction with the Bank and with the job had both improved: 74% of the employees responded that they were very satisfied with the Bank and 61% that they were very satisfied with their role. Moreover, cases of extreme dissatisfaction also declined: only 1% of the employees said they were very unhappy with the company, and 4% with their job.

Satisfaction with Company

(%)

Satisfaction with Function

(%)



*Scope : BES Portugal

Employee wellbeing and satisfaction

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

In the current context of crisis, BES directed its attention to its employees with greater needs. Hence the Bank attributed financial benefits to its employees and their families in the following main areas:

- Education support – child benefits, school grants, and scholarships;

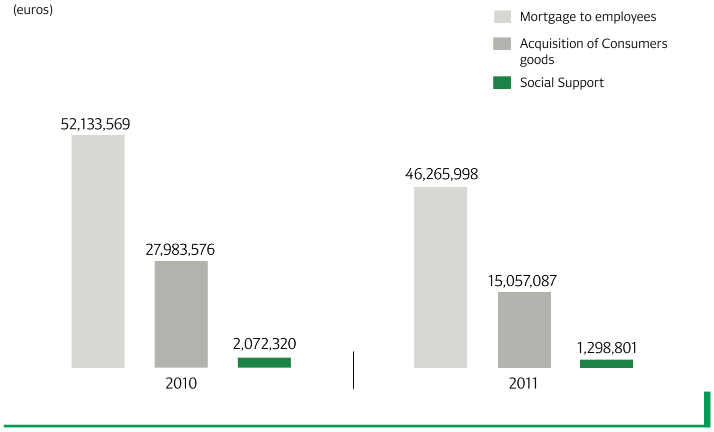
- Illness support – participation in healthcare expenses;

- Over-indebtedness – the Bank granted loans at affordable rates to 130 employees in a situation of over-indebtedness.

- Retirement support – The Bank helps retired employees to meet their expenses when they are institutionalised (residential homes, day-care centres or home care) and in situations of lack of means or chronic disease (medication or other essential goods). In 2011, 30 retired employees received this subsidy.

Credit and support to employees

(euros)



Child benefits continued to account for the largest share of the support granted: in 2011 247 such subsidies were granted, in the amount of EUR 140 per month each.

In addition to these benefits, the Bank also grants mortgage credit, consumer credit, and social financial aid to its employees and their families, which in 2011 totalled EUR 63 million.

While seeking to identify and remedy any safety hazards in its premises, BES Group also has its own healthcare services for its employees, which are provided at the Lisbon, Porto, Coimbra and Oeiras (Tagus Park) clinical centres.

These clinical centres are available to all the employees of BES and BES Group companies, providing occupational medicine, curative medicine, and nursing services.

In 2011 the clinical centres performed 4,132 occupational medicine exams (BES and BES Group companies in Portugal). The Bank's clinical services (curative medicine) performed 11,148 curative medicine acts (consultations, prescriptions and minor surgery) and 5,483 nursing acts.

	Medicine Exams	Curative Medicine	Nursing Acts
BES	3,791	11,418	5,483
BAC	83		
BEST	94		
BESI	119		
ESC	6		
ESAF	39		

The risk prevention and control programmes implemented in 2011 in accordance with the exam protocols in force for BES and the Group companies covered the following employees:

	Screening for cardiovascular diseases	Screening for Oncology		Optical screening	Executive Check Up	Vacines
		mamograms	PSA			
BES	2,286	204	800	3,648	250	103
BAC	54	3	27	83	3	
BESI	88	9	13	105	34	1
BEST	36		1	91	1	2
ESC	5	1		6	1	
ESAF	17	6	1	38	17	

In 2011 there were also 563 mental health (psychiatry and psychology) and quit smoking consultations.

In addition, the Bank also made available the following programmes to its employees:

• Work-Life Balance - the aim is to facilitate access to services that make life easier (car servicing, dry-cleaning and ironing, or cleaning services), thus promoting a balance between professional and family life;

• Anti-Weight – through the sharing of experiences and mutual help, this programme helps employees who want to lose weight and improve their life quality. In 2011 57 employees were monitored by this programme;

• Stress Management – to watch over the appearance of mental health problems, which can disturb both professional and family life, the Bank has a permanent medical team consisting of one psychiatrist, one psychologist and one social worker the Bank. These services permit to diagnose and monitor occupational diseases or disorders, namely those provoked by stress in the workplace.

The work of this medical team has permitted to reduce the number of employees on a prolonged leave of absence due to stress, anxiety, depression or other conditions, and to reintegrate many of them in their jobs. Moreover, this approach has permitted to collect information and provide training to both employees and their superiors on how to prevent or diminish such cases. In 2011, 22 employees working in the Tagus Park building attended training sessions on stress management.

In 2010 a specific module on stress was introduced in BES University's 'Executive Master in Management Banking'. This was followed by a seminar on 'Stress Management', available to all the Bank's employees, which aimed to raise awareness to this issue.

Safety and Health in the Workplace

BES Group regularly performs risk assessments of the working places, through safety audits, ergonomic assessments, and the identification and assessment of hazards and risks arising from the activities (IAHR).

In 2011 the Group performed 190 safety audits, 101 ergonomic assessments and 45 IAHRs.

These were the main problems detected by the safety audits and IAHRs:

• Wall-to-wall carpeting in some branches;

• The need to move certain work stations in order to improve their position relative to natural light sources;

• No measurement of parameters in the work environment;

• Posture issues in specific functions;

• Issues related to the organisation of the response to emergency situations in the branches.

The Ergonomic Assessments detected needs related to the following:

• Lack of training about the organisation and ergonomics of the workstation;

• Reorganisation of the workstation;

• Acquisition of equipment to minimise health risks to the Employees.

In order to provide information to the Employees and divulge important health and safety concepts, in 2011 the Bank planned and executed a training plan on health, hygiene and safety (essentially provided by e-learning) and on first aid and fire fighting (in-class training).
2,420 employees attended these training sessions, corresponding to 5,500 hours of training.
In 2012 BES Group intends to extend this training to all its Employees.

BES Idea Bank

The Idea Bank systematically harnesses the creative potential of BES's employees, encouraging innovation and the capacity to create value for the Bank,
This project's fourth cycle collected 620 ideas submitted by 360 Employees, of which 60 were chosen to be implemented. Three of these ideas earned prizes (EUR 5,000 and EUR 2,500) which were awarded to the winners by the Executive Committee, during BES Group's Congress.
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 aim of the Code of Conduct is to disseminate among the BES Group companies the ethical principles upon which they should base their activity, elicit from the Employees an ethical conduct, aligned to the Group's values, promote respect for and compliance with the applicable legislation and regulations, and create transparency in the relations between the Employees and the outside community, namely the public and supervision authorities.

All the Employees have been given a copy of the Code of Conduct. Its text is also permanently available on the Bank's intranet, which also provides information and answers to frequently asked questions about the Code.

The Compliance Department monitors compliance with the Code, providing clarification to the Employees about its provisions.

In 2011 this Department received 202 communications from Employees requesting for explanations about the Code's rules and their application to specific cases, or notifying related issues.

In May 2011 a 4-week programme was launched on the Group's intranet, specifically to divulge and provide explanations about the Code of Conduct.
In May 2011 a 4-week programme was launched on the Group's intranet, specifically to divulge and provide explanations about the Code of Conduct.

The aim of the programme was to explain the concepts behind the general principles of conduct, clarifying the Group's position on these issues, and helping the Employees gain a better understanding of the Code's rules.

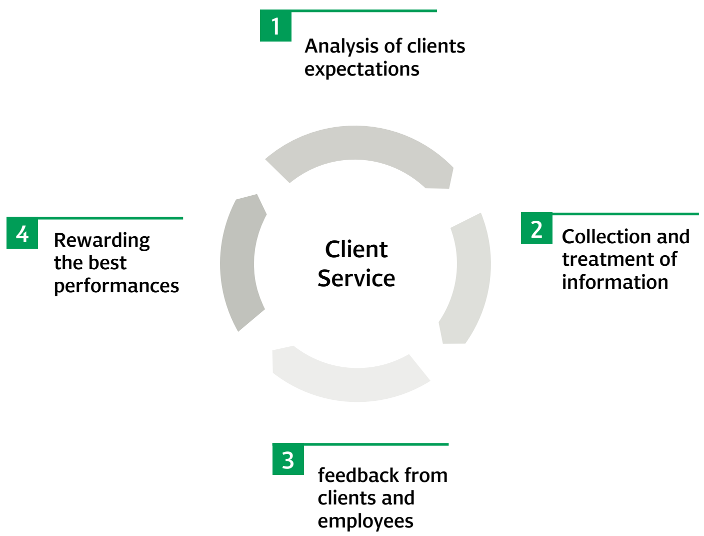
Money Laundering Prevention

Information and training about the legal and regulatory rules in force continued to deserve BES's special attention.
In 2011, 74 and 70 employees, respectively, attended in-class and online (through e-learning methodologies) training about money laundering prevention and detection, making a total of 448 hours of training.
Within the scope of money laundering and terrorism financing prevention, in 2011 a total of 12,023 contracts were analysed, originating 187 notifications to the authorities, and 3,634 accounts were investigated, as a result of which 15 were not opened.
The focus placed on the information and training provided to the Employees, especially those engaged in frontline relationships with the client, allows them to better identify potential risks and consequently prevent financial crimes.

Clients

Service Quality – a commitment to the clients

To improve the service provided to the 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.

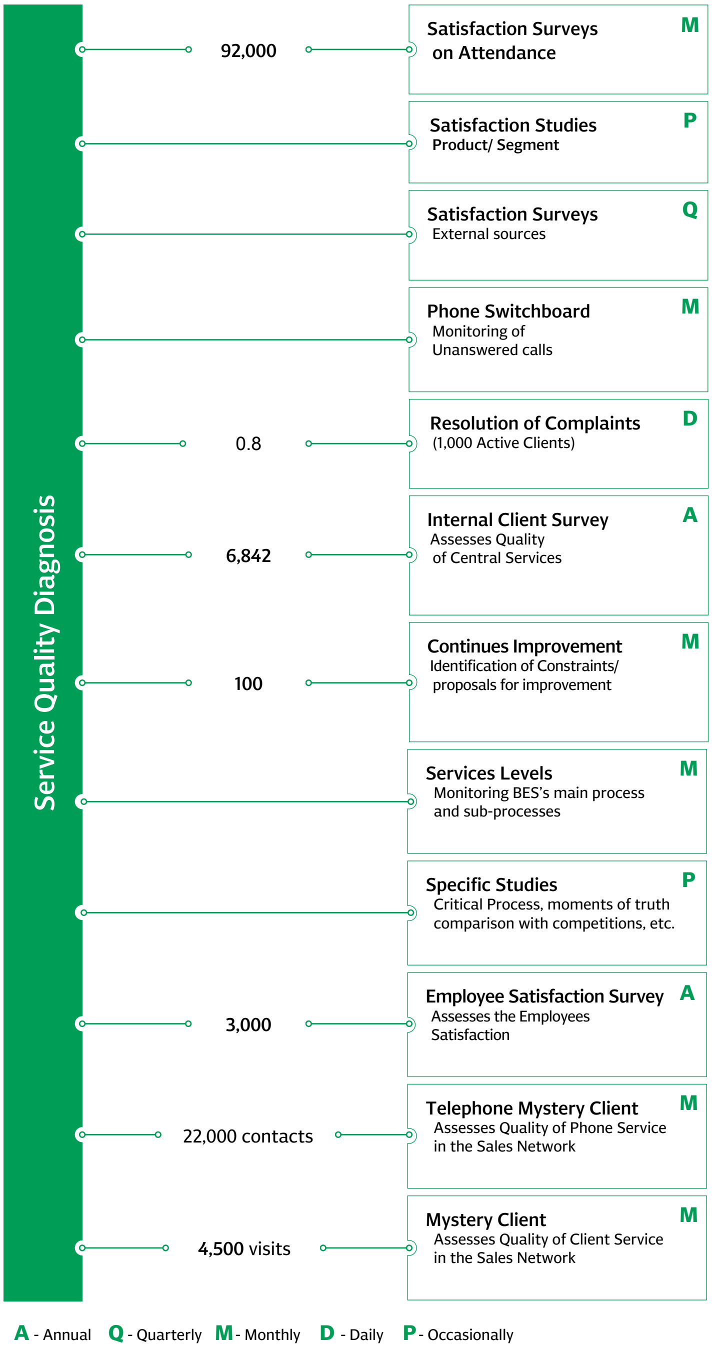


Focus on the client means the definition and monitoring of measurable objectives, employee accountability, assessment of results, implementation of improvements, communication and reward of behaviours and performances. This approach increases customer satisfaction and guarantees service levels. Customer expectations are analysed, and service levels are adjusted through a diagnosis that takes into account satisfaction surveys, customers' opinions and national and international benchmarks.

All the employees are assessed against and remunerated in accordance with the results achieved in the quality indicators. In the assessment of compliance with the objectives set for employees, the Bank includes criteria such as the results of the 'Mystery Client' project, 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.

In 2011 the Bank's assessment of its Employees emphasised a proactive attitude in contacting clients. This led to greater engagement between employees and clients, with positive results in terms of both customer satisfaction and the sale of products and services adjusted to the clients' requirements. 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, the Regional Divisions, Central Departments, Corporate Centres, Private Banking Centres and Branches with the best quality indicators are also recognised and rewarded.



Complaint management is a fundamental process. As a means to improve processes and as a channel of communication, the reply to complaints is instrumental in enhancing customer loyalty and building a relationship of trust with the clients. For this reason, BES maintains its commitment to reply to all complaints within five days, or when not possible, to keep the client informed about the progress made, giving all explanations with the utmost rigour and transparency.

To encourage the Employees to be more proactive in developing a standing relationship with the clients, the Bank has allowed the branches to reply to complaints at the time these are made. This required not only changing the complaints process, but also creating a new process whereby in most cases it is possible to give the Client an immediate reply.

In 2011 the rate of complaints per 1,000 active clients was 0.9. In Bank of Portugal's 2011 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.

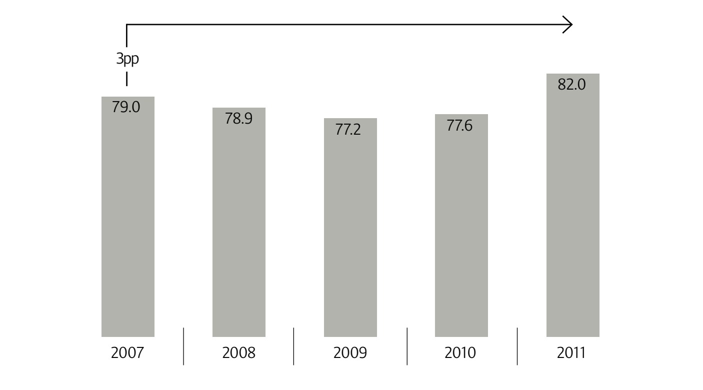
In 2011 the quality diagnosis of products and service levels focused on indicators which presented greater opportunities for improvement. This permitted to enhance the monitoring of the structures with worse results, and to set ambitious satisfaction and service level objectives to all the employees.

At the same time it was also necessary to adjust the diagnosis to the Bank's present reality. As an example, the assessment of the commercial network was adjusted in accordance with the adaptation of the Mystery Client process to the Bank's current products and services. This permitted to diagnose the service quality of the commercial network based on the value proposition of the products and services sold by the Bank.

The finetuning of the diagnosis produced positive results in 2011. The rate of "very satisfied" clients reached 77.4% in the Middle market segment, 72.9% in the Large Corporates segment, and 82% in Retail. In this last segment there was an improvement of 3 pp compared to 2007 and of 4.4 pp face year-on-year.

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

Client Satisfaction Evolution



Espírito Santo Recuperação de Crédito

In 2011 *Espírito Santo Recuperação de Crédito*, ACE (ESRC), continued to implement its policy of proximity to the client, maintaining regular contact with this group of stakeholders and always bearing in mind their social and economic conditions to define the most suitable credit recovery strategy.

In 2011, 302 families managed to find more appropriate solutions for meeting their obligations, of which 158 changed their Mortgages and 144 altered their Consumer Loans.

In addition, and as a specific pre-emptive measure for Consumer Credit, ESRC contacted directly approximately 1,500 Clients who, although not in default, were showing some signs of distress. As a result of these contacts, loan contractual terms were changed in some 18% of these cases.

Through the Portuguese Association for Consumer Protection ("DECO") ESRC received 608 requests for assistance from over-indebted Clients. These requests were analysed with a view to restructuring and renegotiating their debts, leading to the renegotiation of 35% of these cases.

At the end of 2011 BES initiated an innovative study on the automatic flagging of clients with warning signals that they are having difficulties to pay their monthly obligations, which will permit a better monitoring of these situations. With regard to corporate credit, the Group implements proactive policies for the monitoring and mitigation of credit risk, which may involve the reinforcement of guarantees or the reformulation of the credit products,

always with the concern of meeting the needs and addressing the specifics of the different business sectors.
An early diagnosis of risks of default and the adoption of pre-emptive measures will permit to support clients which never actually reach a situation of default. These clients may resume their regular business activity whilst the management of the business is transferred to BES Group's commercial network.

Suppliers

Over the last years BES Group has increasingly tightened and improved its relationship with the suppliers. Through the adoption, implementation and dissemination of good practices, and the assumption of commitments that guarantee total respect for and the impartial treatment of all suppliers, the Group has strengthened its corporate social responsibility image and attitude towards this group of stakeholders.

Since 2044 the Group has a unit dedicated to the relationship with the suppliers, which centralises and systemises the products and services purchasing requirements of the Bank's departments and other companies of the Group. This unit is also responsible for the process of selection, consultation, commercial assessment and negotiation with suppliers, for the e-procurement model (supported by the BUYsite application) and for strategic sourcing at Group-wide level.

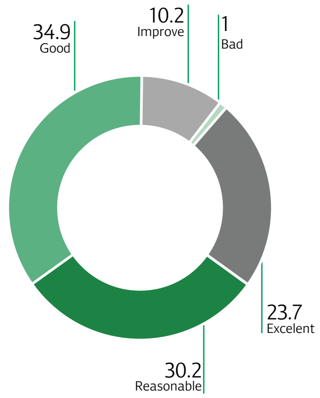
Since 2007, suppliers may register and pre-qualify for certification in the Group's Suppliers Portal (http://fornecedores.bes.pt), which thus plays an important role as facilitator, introducing actual and potential suppliers to the various purchasing companies within the Group's universe. The portal also has a privileged role in the divulgation of the Group's good purchasing practices to all suppliers.

The suppliers' certification process involves a number of steps, namely the collection of relevant information about their capacities, an invitation for them to adhere to BES Group's Principles of Conduct, which were drawn up based on the United Nations' Global Compact Principles, and their subsequent subscription to these principles, and also the calculation of their social and environmental score, based on criteria such as labour, ethical, and health and safety conditions in the workplace.

At December 31st, 2011, there were 1,437 suppliers registered in the Portal, of which 304 were certified, and the average score of these was 72.8%. From all the suppliers assessed, approximately 24% scored "Excellent", 35% scored "Good", and only 11% had a negative score.

Socio-Environmental Scoring

(%)



BES Group requires as a condition to contract a supplier, that it has completed the process of registration and certification in the Suppliers Portal, for which, in addition to technical and commercial criteria, the social and environmental score is also valued.
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.

In line with the trend in recent years, in 2011 BES further reduced its average payment period to suppliers, to 31 days (5 days shorter than in 2010). In the current social and economic context, the Group believes that it is crucial not only to meet all agreed payment terms, but also to gradually reduce average payment periods, thus maintaining a responsible attitude while also contributing to the suppliers' financial sustainability.

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 through the acquisition of new clients (individual and corporate), the reinforcement of the share-of-wallet in the current client base (particularly in saving products), 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 relevant countries; (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 28.8% in 2011; and (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% and a prominent position within Iberia's main financial institutions;

- 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. The stability of BES Group's core shareholder structure is crucial;

- 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.

Short-term strategic priorities

Banco Espírito Santo has been implementing a broad range of initiatives to tackle the financial difficulties faced by the Portuguese economy and the challenges imposed by the Financial Assistance Programme. The Bank has defined the following strategic priorities for the short-term:

- Balance sheet deleveraging: in the second half of 2010 BES Group initiated an ambitious balance sheet deleveraging programme with the objective of reducing the loan to deposits ratio and reinforcing its financial strength. The successful implementation of this programme permitted to reduce the loan to deposits ratio from 198% in June of 2010 to 165% in December 2010 and to 141% on December 31st, 2011;

- Reinforced risk management: in line with its traditionally prudent stance in financial management, BES Group increased provisioning during 2011: the reinforcement of provisions for credit, securities and other totalled EUR 848.3 million, while the balance of provisions reached 4.23% of gross loans at the end of 2011;

- Sustaining profitability for the future, through the growth of the international business and increased efficiency. On the international front the strategic triangle maintained an expressive contribution to BES Group's results, compensating the deceleration of domestic activity. Net income from the operations in Africa, Brazil and Spain amounted to EUR 121.3 million at the end of the year, representing 75% of the international results. To increase efficiency, several cost reduction measures were implemented, especially in Portugal, where there was a net reduction of 30 branches between the end of 2010 and the end of 2011. Domestic costs dropped by 5.6% year-on-year. On the international front, several measures are also being taken, namely through the deleveraging process.

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 national companies, the growing interdependence of economies and the large communities of Portuguese nationals established across various 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.

BES International Presence

Spain
25 branches, 9 corporate centers

In Spain, the BES Group has operations in corporate banking, private banking and affluent banking. The BES Group has also developed investment-banking activities in Spain, holding a leading position in the Spanish brokerage market and in mergers and acquisitions. Taking advantage of the geographical proximity to Spain, the Group has an Iberian vision of the market, facilitating and promoting exports and direct investment by Portuguese companies in Spain, and by Spanish companies in Portugal.

Brazil

The 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 the capital markets, risk management, proprietary trading, project finance, distribution of fixed income products, private equity and corporate finance.

The BES Group's asset management activity in Brazil is conducted by BESAF – BES Ativos Financeiros, which recently restructured its commercial strategy, emphasising the role of external distributors. The BES Group also engages in securities brokerage in Brazil through BES Securities.

Angola
34 branches, 1 private banking center, 1 corporate center

In Angola, the BES Group conducts its activity through BES Angola, a bank incorporated under Angolan law that provides a global service to individual and corporate clients.

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

In corporate banking, BESA is supported by a corporate centre in Luanda, focusing its activity on (i) establishing commercial partnerships of mutual added value with the large - and medium-sized companies operating in Angola, namely by financing the investment projects or cash needs of these companies and providing technical and legal support; and (ii) supporting foreign companies and entrepreneurs (principally from Portugal, Spain, Brazil and Germany) by expanding their activity into Angola.

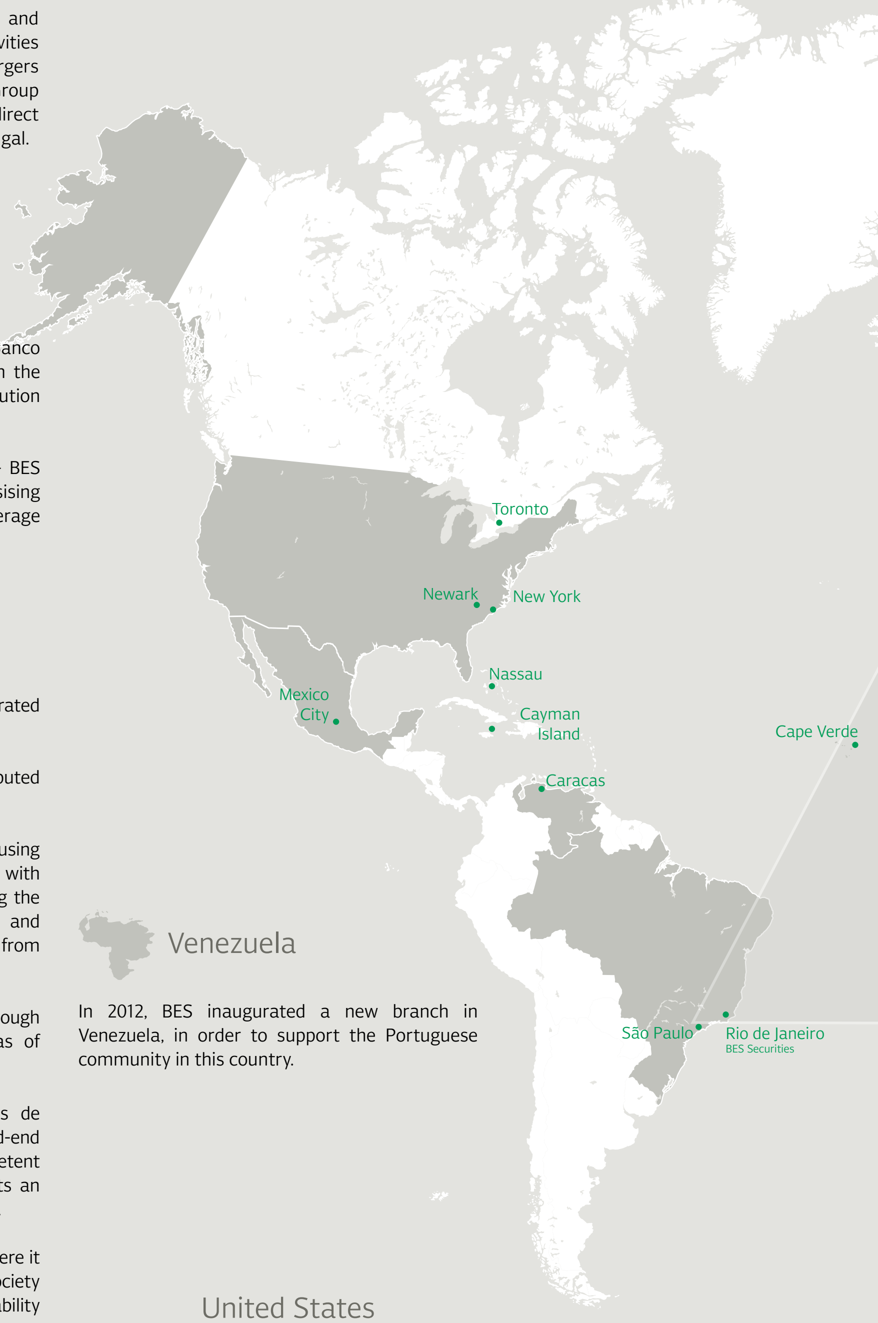
The BES Group's investment banking business has also been expanding through tracking business opportunities and arranging financing solutions in the areas of project and corporate finance.

In the asset management area, BESAACTIF – Sociedade Gestora de Fundos de Investimento, the first fund management company in Angola, manages a closed-end real estate fund (and a second one is pending authorisation by the competent authorities), and BESAACTIF – Sociedade Gestora de Fundos de Pensões markets an open-ended defined contribution pension fund called BESA Opções de Reforma fund.

BESA has been asserting its position as a reference bank in the Angolan market, where it stands out for its profitability and efficiency levels, while being actively engaged in society and participating in Angola's reconstruction process within the scope of its sustainability policy.

Cape Verde
2 branches

The activity of BES Cabo Verde is concentrated on the local corporate market, particularly the public sector and affiliates of Portuguese groups with economic interests in Cape Verde, and on the local affluent market. In June 2011, a second branch was opened in Santa Maria (Sal Island) in addition to the BES branch in Cape Verde, which targets granting credit to non-resident clients.



Venezuela

In 2012, BES inaugurated a new branch in Venezuela, in order to support the Portuguese community in this country.

United States
New York
Branch BES and ESIB
Newark
3 Remittance Offices
Miami
ES Bank of Florida

Through Espírito Santo Bank, based in Miami, the BES Group conducts international private banking activities in the United States, where its main customers are the local Portuguese and Latin American communities. BES' New York branch focuses its activity in wholesale banking, mainly in the United States and Brazil. BES Investimento's New York branch distributes products in the core geographies, primarily in the areas of project finance and other structured finance activities, leveraging its Brazilian presence, strong positioning in the capital markets business in Iberia, and reference clients in the area of project finance. The BES Group's presence in New York gives it access to institutional investors in one of the world's main financial centres.

- **Subsidiaries and Associates:** BES Angola, BES Oriente (Macao), BES Vénétie (France), ES Bank (USA), ES plc (Ireland), BES Cape Verde, Aman Bank (Libya), IJAR Leasing (Algeria), ES Investment Bank (Angola, Brazil, China, India, Poland, Spain, UK, USA), Moza Bank (Mozambique);
- **International Branches:** Spain, New York, London, Cape Verde, Venezuela, Nassau and Cayman Islands and Luxembourg;
- **Off-shore Branch** in Madeira;
- **Representative Offices:** Toronto, Lausanne, Cologne, Milan, Johannesburg, Shanghai and Mexico City;
- **Remittance Offices:** Newark (USA).

China

Representative Office
Hong Kong
Subsidiary ESIB
Macao
Subsidiary BES Oriente

The BES Group is present in Macao through BES Oriente, whose main activity is to support the business operations developed by BES' clients in the region, while seeking to seize 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.

Poland

The BES Group has been present in Poland since 2005, the year of the foundation of Concordia Espírito Santo Investment, now known as Espírito Santo Investment Sp. Z.o.o., 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 which provides brokerage services on the Warsaw Stock Exchange.

France

BES conducts 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 in Portugal.

Portugal

In Portugal the BES Group operates through a network of 701 branches, 22 Private Banking Centers and 24 Corporate Centers.

United Kingdom

In London, Europe's main financial centre, BES operates through a branch which concentrates its activity in wholesale banking, namely syndicated credit transactions, leveraged finance operations and commodities structured trade finance and, in close co-operation with BES Investimento, in project finance operations. At the end of 2010, BES Investimento acquired a 50.1% stake in Execution Noble (65.42% in 2011), an international investment banking group focusing on brokerage, research, mergers and acquisitions, corporate finance, corporate brokerage and equity capital markets. Through this acquisition, the BES Group fulfilled its intention to reinforce a presence in Europe's largest financial centre, while opening an access route to emerging markets such as China and India.

Libya

33 branches

The BES Group operates in Libya through a 40% stake in Aman Bank, of which it has management control. Through its presence in Libya, the BES Group not only aims to provide support to its clients in that country but also to open access channels to the North-African markets.

Libya is undergoing a stage of consolidation following the recent fall of the previous regime, and Aman Bank is believed to be in a relatively good position to take advantage of any growth opportunities in the country. The Bank has suffered neither sanctions nor significant damage to its infrastructures, and so it continues to operate during the transition period.

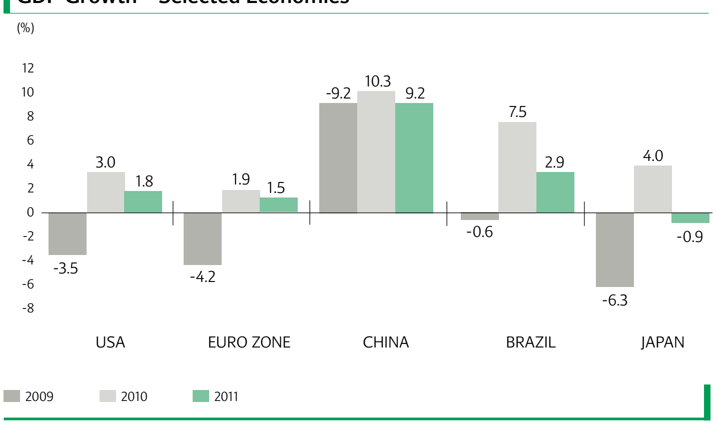
2. Economic Environment

2011 was chiefly marked by the difficulties bred by the Eurozone debt crisis. In addition to fears over Greece's default, there was a visible contagion effect not only to peripheral economies such as Spain and Italy, but also to some of the core economies, namely France and Austria. The loss of confidence and growing risk aversion associated to financial instability in the Eurozone led to a liquidity dry-up in the money and credit markets, which was particularly acute as from August/September. In this context, and already close to the end of the year, the EU leaders agreed on a reinforcement of budget consolidation and control rules. On the other hand, the European Central Bank (ECB), after raising the key benchmark rate from 1% to 1.5%, reversed its monetary policy course, lowering the benchmark rate to 1%, with two 25 bps cuts in the fourth quarter. At the same time, the ECB significantly reinforced liquidity injections in the financial system, loosened collateral rules and reduced the reserve requirement ratio for European banks. In December, the monetary authority conducted the first of two unlimited three-year refinancing operations, with demand reaching EUR 489 billion. Aversion to risk caused the yields on 10-year bunds to fall from 2.963% to 1.829% in the year. The Euro dropped by 3% against the dollar, from EUR/USD 1.3366 to EUR/USD 1.296, with this trend becoming sharper towards the latter part of the year.

Fears over the debt crisis contagion, especially within the financial sector, also fed into the equity markets, with the main European indices suffering considerable drops: the DAX, CAC40, IBEX and PSI20 fell in the year by 14.69%, 16.95%, 13.11% e 27.6%, respectively. In the US, the Fed's more aggressive monetary policy stance and the relatively bright outlook for economic activity afforded the equity markets a less negative performance: the Dow Jones gained 5.53%, the S&P500 remained flat and the Nasdaq slid by 1.8%. In China and Brazil, fears over inflation and the monetary authorities' price control efforts (particularly in China) caused the Shanghai Composite and Bovespa indices to fall by 21.68% and 18.11%. China's GDP grew by 9.2% in 2011, slowing down from 10.3% in 2010. However, declining inflation towards the end of the year buttressed the monetary policy's support of economic activity, allaying concerns about a steeper fall of economic growth. In the fourth quarter the Chinese GDP grew by 8.9% year-on-year, after rising by 9.1% in the previous quarter.

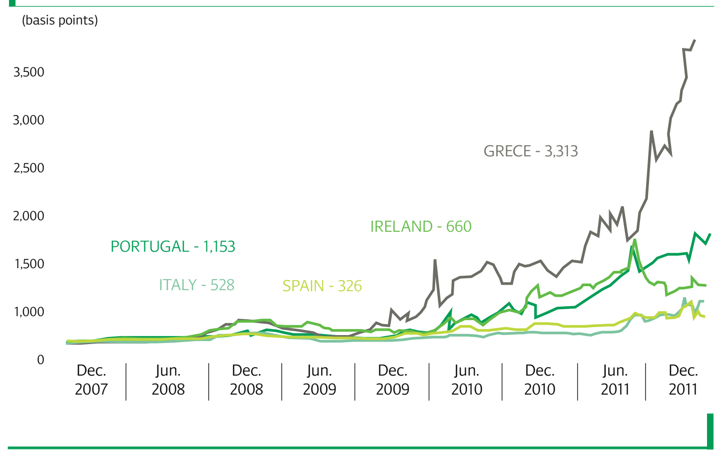
The easing of global inflationary pressures at the end of 2011 was supported by the downward trend of commodity prices. The Commodity Research Bureau's Food and Metals price indices fell year-on-year by 8.3% and 7.7%, respectively. From the end of 2010 to the end of 2011 the price of Brent crude rose from USD 94.3 to USD 107.6 per barrel, despite falling by 8.2% in the last three quarters of the year as expectations of global demand became increasingly subdued.

GDP Growth – Selected Economies



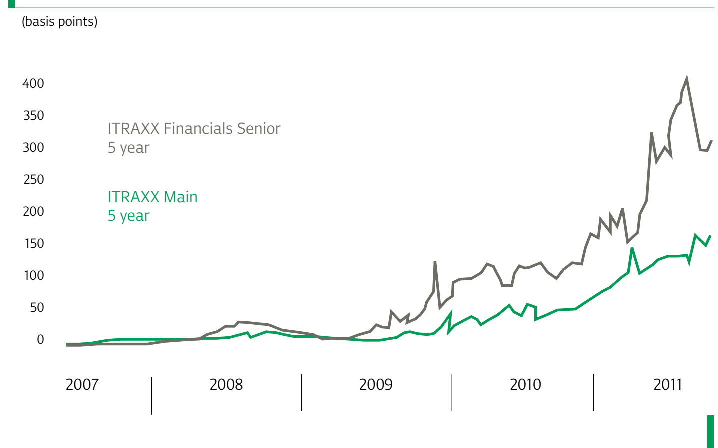
Source: IMF, National Statistics Institutes

Yield Spreads on 10-year Government Bonds vs. Germany, Selected Economies



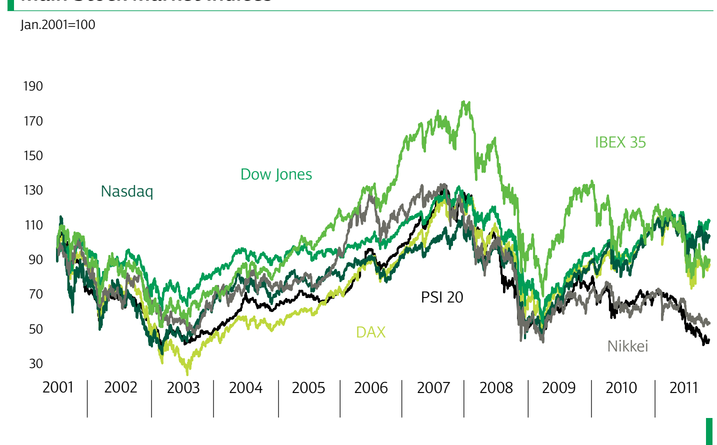
Source: Bloomberg

iTraxx Financials Index



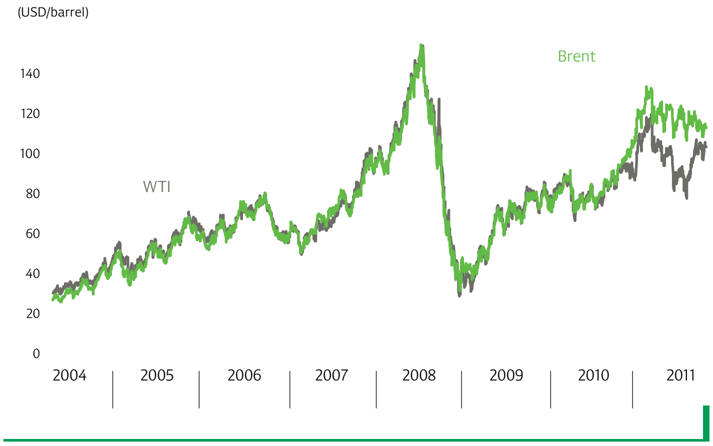
Source: Bloomberg

Main Stock Market Indices



Source: Bloomberg

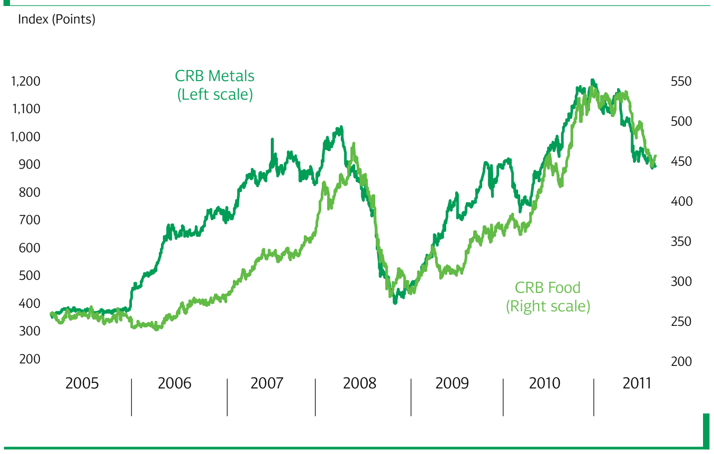
Oil price



Source: Bloomberg

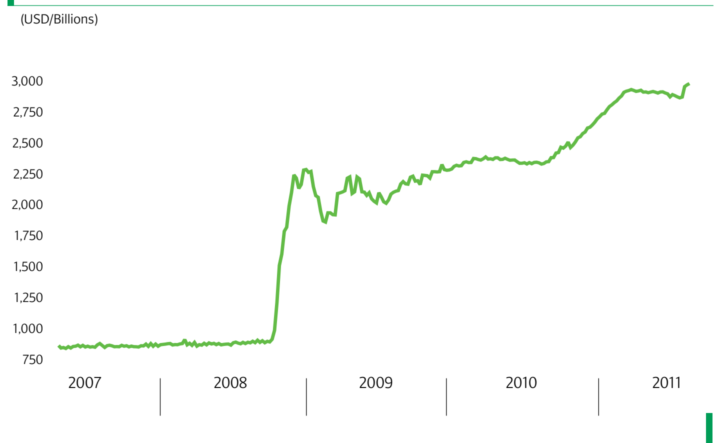
Year-on-year inflation was 3% at year end, above the 2% target established by the monetary authority but showing a markedly downward trend and with inflation expectations anchored in the medium term. In this context the Federal Reserve conducted a second round of quantitative easing (QE2) during the first half of the year, buying USD 600 billion of long-term Treasury securities, while holding the fed funds target rate at an historically low level (in a range of 0% - 0.25%). The relatively weak traction of the economic recovery led the Fed to adopt additional monetary policy measures in the second half of the year. The first of these measures was to maintain the size of its balance sheet, replacing securities coming to maturity through the acquisition of new securities. Second, it announced its intent to keep key interest rates at exceptionally low levels at least until mid-2013. Finally, the Fed announced the "Twist operation", which was intended to extend the maturity of its balance sheet. This will involve, until mid-2012, selling Treasury notes with maturities of three years or less and using the money to buy debt with maturities of between six and 30 years. The programme will be worth USD 400 billion.

CRB's Food and Metals Indices



Source: Bloomberg

US Federal Reserve Balance Sheet

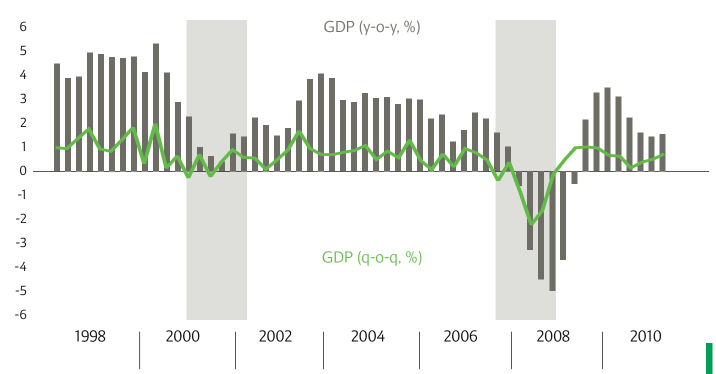


Source: Reuters EcoWin

United States

The United States GDP grew by 1.7% in 2011, decelerating from 3% in 2010. Despite the expanding pace of annualised quarterly growth, with the rate of GDP rising from 0.4% to 2.8% between the first and the fourth quarters, annual growth fell below expectations, being pulled down by a number of external shocks, including disrupted supply chains after the Japanese earthquake, the rise in oil prices, and the impact of the European debt crisis. This performance is chiefly explained by weaker investment (with annual growth slumping from 17.9% to 4.7%) and the contraction of public consumption (-2.1%) in so far as private consumption held on relatively well (+2.2% in 2011, after rising by 2% in 2010). Lacking its traditional support from the equity and housing markets, the growth of household consumption was mainly driven by the improvement of the labour market and a declining saving rate. In fact more than 1.6 million jobs were created during the year, the rate of unemployment dropped from 9.1% to 8.5% of the working population and the saving rate declined from 5.2% to 4% of disposable income. Given the persistence of a surplus of vacant homes, the housing market continued the adjustment process of previous years, characterised by reduced new housing construction, low confidence levels among property developers and falling house prices, notwithstanding the low level of mortgage interest rates.

GDP – QoQ and YoY growth



Source: Bloomberg

Brazil

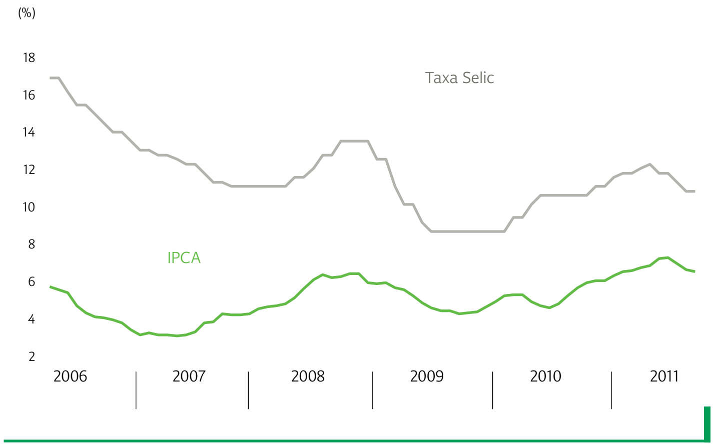
Despite a lower real growth rate than in 2010 (7.5%), the Brazilian GDP grew by 3% in 2011, which is close to its estimated growth potential (4%). This performance was mainly fuelled by the expansion of private consumption, supported by favourable conditions in the labour market where average annual unemployment registered an historical low (6% of the working population), enabling a 5.2% real increase in the wage bill.

If on the domestic front Brazil showed a bright outlook, the situation was no less different regarding its balance of payments. Supported by the good performance of the emerging economies and the ample liquidity provided by the advanced economies' central banks, commodity prices pushed the trade balance above its level in 2010, virtually preventing the deterioration of the current account balance (the deficit only registered a marginal increase, from USD 47.5 billion in 2010 to USD 52.6 billion in 2011). The Brazilian economy's solid fundamentals, allied to the opportunities arising from the sports events which the country will host in the coming years, namely in terms of the necessary infrastructure building, attracted a total of USD 66.7 billion in foreign investment, which contributed to propel international reserves to USD 352 billion. In these conditions, it came as no surprise that the average exchange rate of the real against the dollar retreated once again (BRL/USD 1.67 in 2011 vs. BRL/USD 1.76 in 2010).

Such buoyancy, combined with the persistently strong pace of demand (due to the country's huge potential) gave rise to inflationary pressures, with consumer prices closing the year at the upper limit of Brazil's permitted tolerance interval for inflation (6.5%). Despite this inflationary scenario and the resilience shown by the Brazilian economy to the effects of the troubled international financial situation, the Central Bank of Brazil decided to reverse the monetary tightening process initiated in the first half of the year, cutting the basic interest rate as from August: the SELIC rate was reduced from an annual high of 12.5% to 11% in December (10.75% at the end of 2010). The Central Bank justified this strategy with fears that the local economy could sharply lose momentum. Hence, other than its habitual focus on fighting inflation, the monetary authority is thought to have expanded its objectives towards the defence of economic activity.

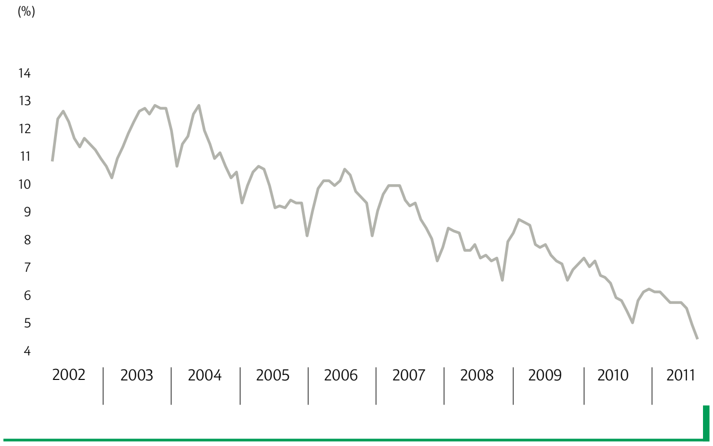
To sum up, the Brazilian economy's performance throughout 2011 showed its strong resilience capacity against a difficult international scenario.

Brazil – Inflation (YoY rate of change) % and SELIC Interest Rate



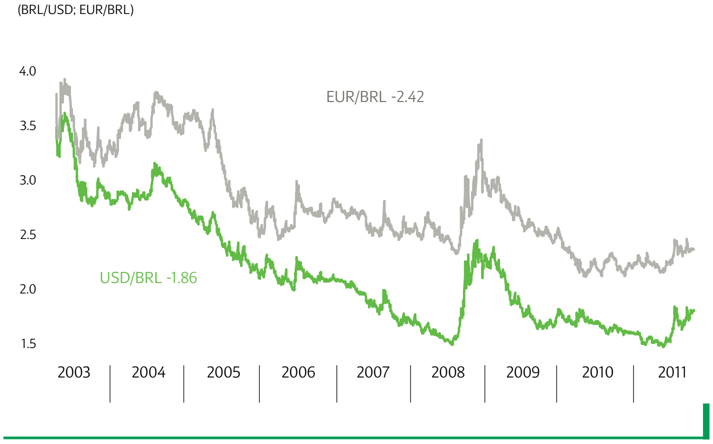
Source: Bloomberg

Brazil – Unemployment Rate (working population)



Source: Bloomberg

Brazil



Source: Bloomberg

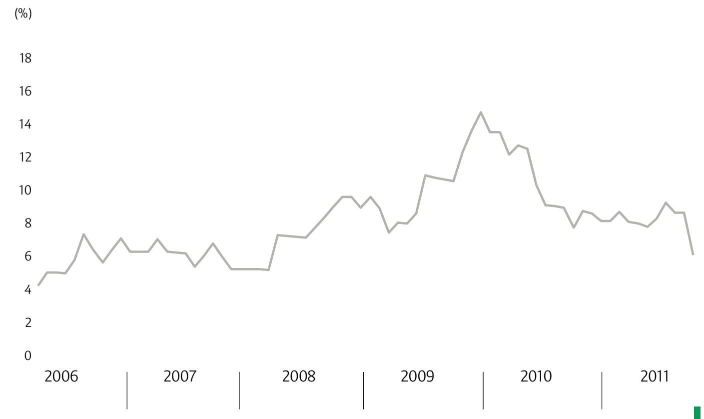
India

In contrast to other economies, where in the course of 2011 the political focus shifted from the combat of inflation to the management of activity growth, the Indian economy continued to strive to curb inflation and contain inflationary expectations, with signs of a reversal in the rising trend of prices only becoming visible towards the end of the year. Price resistance thus only permitted a small decline in the average annual rate of inflation, from 9.6% to 8.7% (fiscal year). Inflationary factors consistently changed as the initial rise in food and energy prices gradually fed into other inflation components. The major problem lies in the stubbornly high level of core inflation, which reflects inflation at the level of non-food manufactured goods and shows a strong correlation with global commodity prices. The decline of inflation towards the end of 2011 thus stemmed in part from the easing of commodity prices in the second half of the year. At monetary policy level, India's Central Bank (the Reserve Bank of India) maintained a markedly anti-inflationary stance, lifting the repo rate seven times in 2011 (from 6.25% to 8.5%), the last time in October.

The restrictive nature of economic policy induced a cooling of economic activity, with GDP growth dropping from 8.5% to 7% (in the fiscal year). This slowing down cut across all sectors of economic activity. Private consumption and gross capital formation growth decelerated from 8.6% to 6%, and from 8.6% to 4.2%, respectively.

In line with the global increase in aversion to risk, the rupee (INR) fell by 10% against the dollar in 2011, and in average annual terms is estimated to have reached INR/USD 49 in fiscal 2011/12.

India – Average Annual Inflation Rate



Source: Bloomberg

Angola

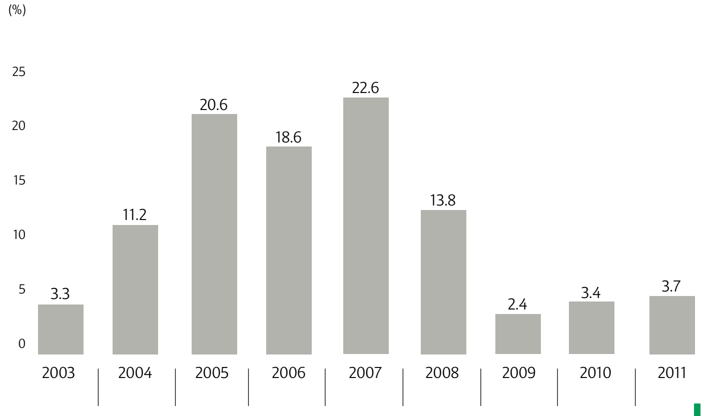
The acceleration of economic activity growth in Angola during 2011 was chiefly fuelled by the improving performance of the oil sector, with the country consolidating its position as the second largest oil producer in Sub-Saharan Africa. In fact, once the technical problems occurred at the start of the year (repair of the water injection system of Complexo do Grande Plutónio and technical issues at Mondo and Saxi-Butaque) had been solved, oil production intensified, reaching close to 1.8 million barrels/day at the end of the year. For the Angolan oil sector, the rebound in oil prices and in world demand for oil was of utmost importance as it will permit to go ahead with planned projects in oil exploration that require very large investments as they are located in deep and ultra-deep waters off the Angolan coast.

But investments in the Angolan economy have not been limited to the oil sector. Angola is currently one of the four African countries with more than USD 3 billion of foreign investment, with the bulk of this amount being channelled to the manufacturing industry. The governmental authorities have maintained as one their objectives to invest in a diversified range of major infrastructures, namely in areas such as roads, railways and housing, while also promoting projects to recover domestic production, which is less reliant on external intermediate consumption.

The upgrade of Angola's risk rating by the three main rating agencies, with stable outlook in all three cases, shows the existing confidence in the country's economy. In July Standard & Poor's lifted Angola's rating from B+ to BB-, outlook stable, placing Angola in a better position than many of its regional neighbours. Moody's, in May, and Fitch, in June, also raised Angola's debt rating. This was seen as recognition for the country's capacity to maintain robust and consistent macroeconomic growth, for the favourable assessment made by the IMF within the scope of its monitoring of the USD 1.4 billion loan facility to Angola, and for the progress made by the Government in reducing arrears on debt to contractors from 2008 and 2009.

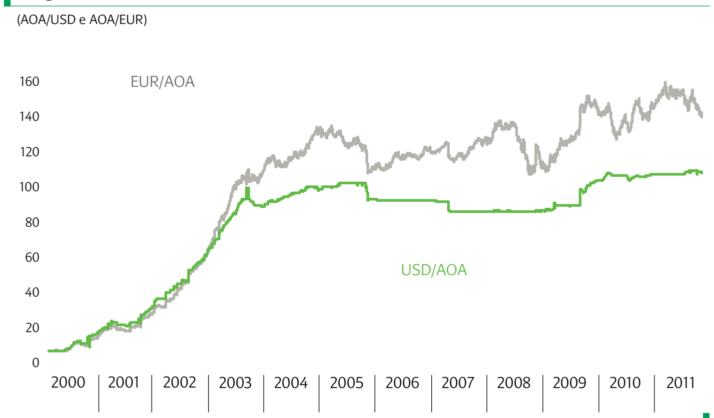
On the foreign exchange front, ever since the monetary authorities decided to abandon the Angolan currency's peg to the dollar the Kwanza trended within a range of USD/AOA 90-94. However, stability against the dollar meant an appreciation against the euro, given the losses sustained by the European single currency. Therefore, and in so far as the majority of Angola's imports come from the European Union, this behaviour of the Angolan currency did not benefit the Angolan authorities' policy of stabilising inflation. 2011 thus continued to see an upward trend in prices, which was mainly driven by the rise in food and beverages prices. This effect on the price of food products, which continues to translate the existing constraints at the level of logistics and distribution capacity, further emphasised 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 2011 rose to close to 15%. At monetary policy level, the National Bank of Angola, citing the "need to promote the growth of the national economy", cut in April the rediscount rate from 25% to 20%, holding it at that level until the end of the year.

Angola – GDP and non-oil sectors real growth



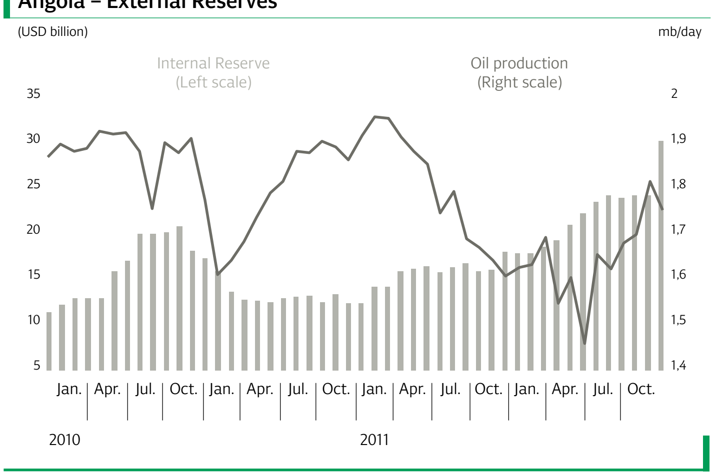
Sources: IMF, Bloomberg

Angola



Source: Bloomberg

Angola – External Reserves



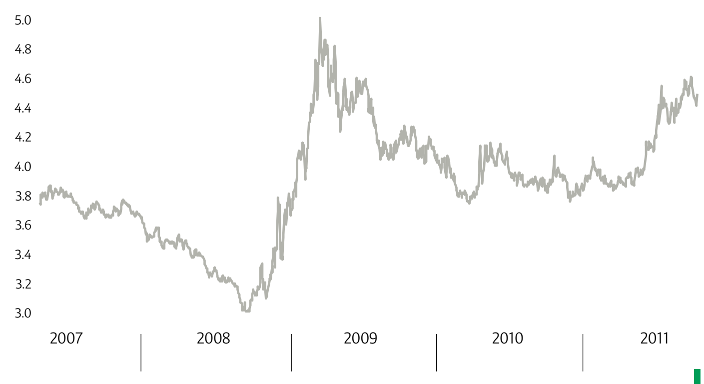
Source: National Bank of Angola

Poland

In 2011 the Polish economy continued to display robust growth. In contrast to the general slowdown of economic activity in the European Union, Poland's GDP grew by 4.3%, after rising by 3.9% in 2010. Domestic demand was one of the mainstays of this performance, with the improvement of the labour market driving a 3.4% increase in private consumption and investment expanding by 8.7%, being fuelled by the organisation of the European Football Cup in 2012. Net external demand, underpinned by a weaker Zloty, also gave a positive contribution to GDP growth. Exports surged by 7.3%, offsetting the lower increase in imports (ca. 7%). Reflecting the Polish economy's vulnerability to the performance of the Eurozone economies, as well as the global economic scenario, the Zloty fluctuated during the year between 3.84 and 4.56 against the euro, closing the year at 4.46, which translates a fall of 11% vis-à-vis the European currency. If on the one hand this performance benefitted the trade balance, on the other it also amplified inflation risks. The strong inflationary pressures to which the Polish economy was subject during the year as a result of rising energy and food prices and the increase in taxes led the National Bank of Poland to raise the benchmark rate four times between January and April, holding it at 4.5%. This monetary policy tightening restrained the rise in prices, and after reaching a peak of 5% in May, the rate of inflation closed the year at an average of 4.2%, above the Central Bank's medium-term inflation target of 2.5%.

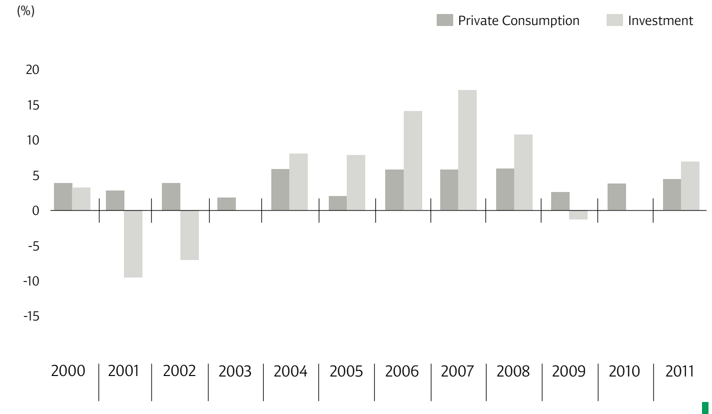
2011 was also marked by rising concerns about the public accounts. The fiscal deficit reached 5.6% of GDP and the public debt increased to 56.7% of GDP. Following the October parliamentary elections, which returned to office the PO-PSL coalition, the government announced their priorities, namely the implementation of structural reforms and the consolidation of public accounts, the latter by increasing taxes and cutting expenditure.

EUR/PLN



Source: Reuters Ecowin

Private Consumption and Investment (% annual change)



Source: Reuters Ecowin

United Kingdom

The United Kingdom economy slowed down during 2011, growing by 0.9%, after expanding by 2.1% in 2010. Despite a moderate performance in the first three quarters, culminating with a 0.5% increase in the 3rd quarter, the last three months of the year saw GDP retreating by 0.2% (QoQ). The fall in manufacturing and construction output, allied to the near stagnation of the services sector, and also the slowdown of exports due to difficulties arising from the Eurozone debt crisis, penalised activity in the latter part of the year. Strong fiscal consolidation efforts, bearing in mind a public deficit of 8.4% of GDP (in the fiscal year), also contributed to the deceleration of growth. Moreover, domestic demand and investment also suffered from high family indebtedness, rising inflation, growing unemployment and low consumer confidence.

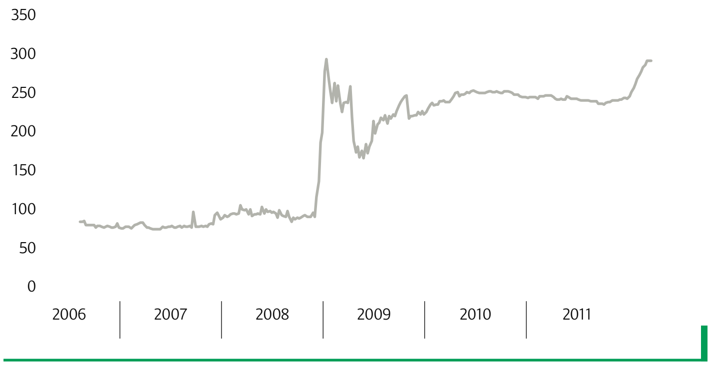
The average inflation rate reached a peak of 5.2% in September, subsequently dropping to 4.2% in December (3.3% in December 2010). The hike of the VAT rate at the beginning of the year, from 17.5% to 20%, as well as the increase in energy, commodity and imports prices were the main drivers of this acceleration in prices, which took a heavy toll on private consumption. Although the inflation rate rose above the target established by the Bank of England, the monetary authority opted for holding the key rate at 0.5%, while increasing its quantitative easing programme (purchase of assets) in October by GBP 75 billion, thus adopting a clearly more expansionary monetary policy in 2011. Reflecting the fiscal measures adopted and the deepening of the Eurozone sovereign debt crisis in the second half of the year, the yields on the 10-year gilts (UK public debt securities) displayed a downward trajectory throughout the year, hitting a low of 1.963% in the last session of 2011. In an environment of high uncertainty in the markets and increasing aversion to risk on the part of investors, the UK debt was seen as a safe haven, benefitting from a general flight-to-safety movement. This trend was also evident in the performance of the sterling against the euro: while the euro rose during the first half of the year up to a high of EUR/GBP 0.9032, the pound subsequently gained ground until reaching EUR/GBP 0.84 at the end of the year. The pound remained relatively stable against the dollar, registering a slight increase of 0.53% in annual terms.

EUR/ GBP

Source: Reuters Ecowin

Bank of England Balance Sheet

(GBP billion)



Source: Reuters Ecowin

Eurozone

After sharply accelerating at the beginning of 2011 due to a strong expansion of investment, particularly in construction, which benefitted from good weather conditions, the Eurozone economy's growth gradually decelerated for the remainder of the year, and activity actually contracted in the fourth quarter. Overall the Eurozone economy grew by 1.5% in 2011, down from 1.9% in 2010. Economic growth was very uneven within the EU member states: while Germany, Europe's main economy, grew by a robust 3%, the performance in most other countries was much more subdued, with Greece and Portugal posting negative GDP growth and Spain and Italy growing by less than 1%, as activity in these economies was much constrained by the strong efforts towards fiscal consolidation under way during the year. Economic performance in the Eurozone was also irregular throughout the year. As economic sentiment worsened and fiscal policy became more restrictive, the 4th quarter also saw a quarter-on-quarter retraction of economic activity in core economies such as Germany, the Netherlands and Austria.

The slackening pace of economic growth during the year was not only driven by this strong fiscal consolidation effort (the overall Eurozone fiscal deficit dropped from 6.2% of GDP in 2010 to 4.1% in 2011), but also by the deceleration of private consumption as labour market conditions deteriorated (the rate of unemployment reached 10.4% of the labour force). Exports also slowed down, reflecting the cooling of external demand, especially from the emerging economies, as well as the rise of the euro in the first half of the year.

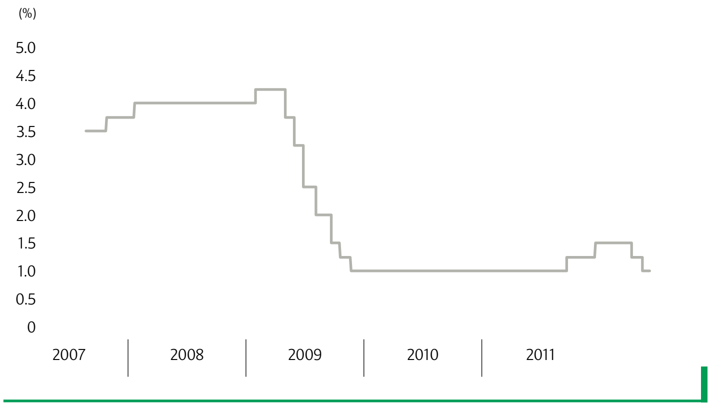
Growing uncertainty and tensions in the financial markets, particularly in the debt markets, and the dry-up of liquidity in the interbank money market that became especially acute since the summer, penalised confidence levels among economic agents and restricted bank funding across Europe, in a context of growing interconnection between the evolution of the public debt markets and the banking sector. The strict recapitalisation requirements imposed on European banks, and these banks' increasing difficulty in accessing the money and credit markets resulted in a shrinkage of credit flows to households and companies, further contributing to scale down consumption and investment.

The annual average inflation rate reached 2.7%, up from 1.6% in 2010, being mostly driven by the rising price of energy (especially fuels) and food. However, the underlying inflation rate, which excludes these components, was more contained (+1.7% year-on-year), translating the absence of demand-driven inflationary pressures, to which the high level of unused installed capacity and the rise of unemployment also contributed.

The risk that the increase in prices could in time lead to an increase in wages led the European Central Bank to lift the key benchmark rate from 1% to 1.5% (one increase in April and another in July). However, with growth prospects deteriorating and confidence levels falling sharply, especially after the summer months, and in the absence of significant inflationary pressures, the European monetary authority once again cut back the key rate to 1%, in two movements, respectively in November and December. In relation to the so called non conventional monetary policy measures, which are intended to minimise tensions and instability in the financial markets, the ECB provided ample liquidity to the banking system, conducting regular liquidity injection operations by unlimited amounts at 1 week and 1 month at fixed rate and at 3 months at the average rate during the period. In addition, the ECB announced two new long-term (3 years) liquidity facilities in the amounts that may be requested by the banking sector and at the average rate of the main refinancing operations in force in the corresponding period. The first of these operations took place on December 21st, 2011, with the ECB lending a total of EUR 489 billion to 523 banks. Furthermore, the ECB announced a new covered bond purchase programme taking place between November 2011 and October 2012, for an amount of EUR 40 billion, with purchases in the primary and secondary markets (the ECB had already conducted a similar programme, in the amount of EUR 60 billion, for a period ending in June 2010). The ECB also maintained the secondary market public debt purchase programme initiated in May 2010, under which it purchased a total of EUR 200 billion until the end of 2011. In order not to increase money supply, the amount purchased under this programme was sterilised through short-term deposits made by commercial banks with the ECB. In July the ECB announced its decision to suspend the application of the minimum credit rating threshold in the collateral eligibility requirements for refinancing operations in the case of debt securities issued or guaranteed by the Portuguese State, a measure it had already taken with regard to Greece and Ireland.

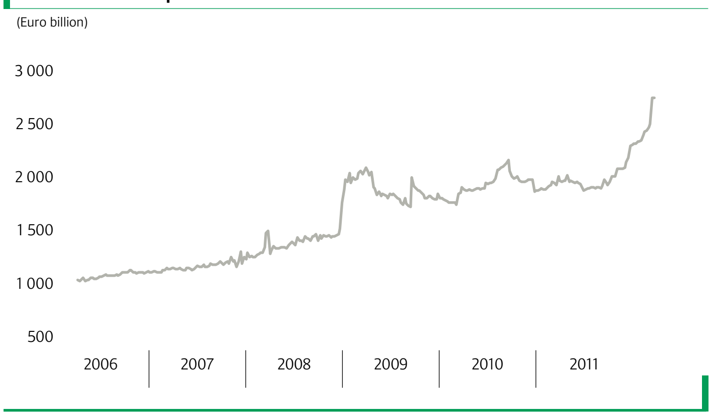
The euro showed a rising trend against the dollar during the first half of 2011, mirroring the widening gap between Eurozone and US interest rates – in fact, while the ECB was lifting key interest rates and further hikes were anticipated, the Federal Reserve was increasingly expected to maintain its monetary policy unchanged for a long period, particularly with regard to the fed funds rate. Hence the euro reached 1.494 against the dollar at the end of May, a record high since the end of 2009. However, increasing global aversion to risk contributed to reverse this movement during the second half of the year: the deterioration of economic sentiment allied to the debt crisis in the Eurozone exerted downward pressure on the Euro, which closed the year at 1.2960 to the dollar.

Eurozone – Refi rate



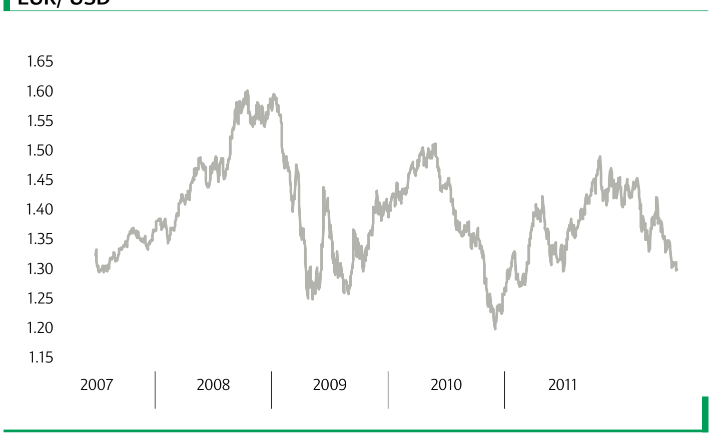
Source: Bloomberg

Eurozone – European Central Bank Balance Sheet



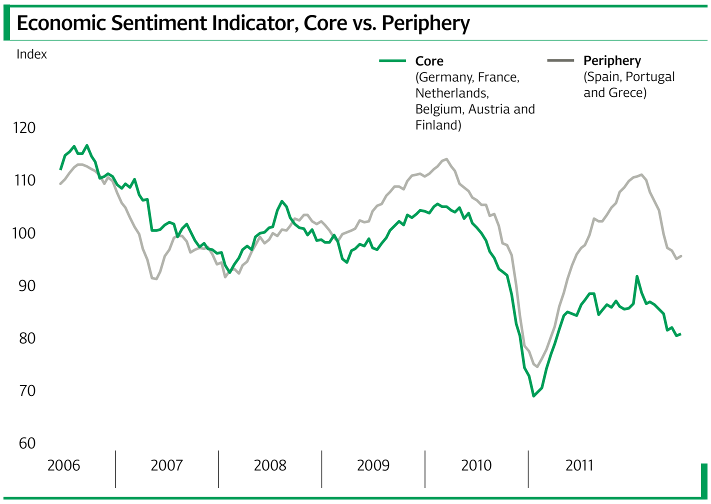
Source: Bloomberg

EUR/ USD



Source: Bloomberg

Economic Sentiment Indicator, Core vs. Periphery



Source: Bloomberg

Spain

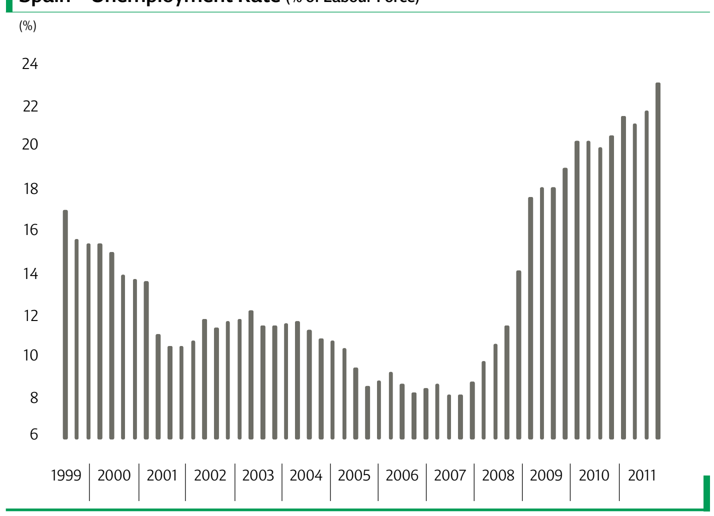
Following a steep recession in 2009 (-3.7%) and a period of stagnation in 2010 (-0.1%), the Spanish economy posted a more dynamic performance in the first half of 2011, which was offset, however, in the second half of the year. This was due to the contagion effects from the Eurozone debt crisis, the deterioration of domestic financing conditions and confidence levels, and the announcement of a more restrictive fiscal policy. With GDP contracting by 0.3% in the fourth quarter (QoQ), the annual GDP increase was 0.6%. Private consumption was heavily penalised by a rising jobless rate, which reached 22.9% of the working population at year-end. Domestic demand continued to be held back by the ongoing adjustment in the housing and residential construction sector. Gross fixed capital formation dropped by more than 5%, with construction retreating by ca. 8%, after falling by 11.1% in 2010. Reflecting the persistently unfavourable conditions in the sector, housing prices tumbled by 6.8%. Although somewhat abating towards the end of the year, exports growth remained strong in 2011, at around 8%, thus allowing an increase in the contribution of net external demand to growth.

As a result of the worsening of the Eurozone debt crisis and its contagion effects, the yields on the Spanish 10-year public debt securities rose from 5.4% to 6.7% in November, subsequently dropping until reaching 5.1% at the end of the year. Risks of further contagion heightened fiscal consolidation concerns, especially as the public deficit grew above the initial target for 2011 (6% of GDP), to just over 8% of GDP, largely due to the higher than expected public deficits of the autonomous regions.

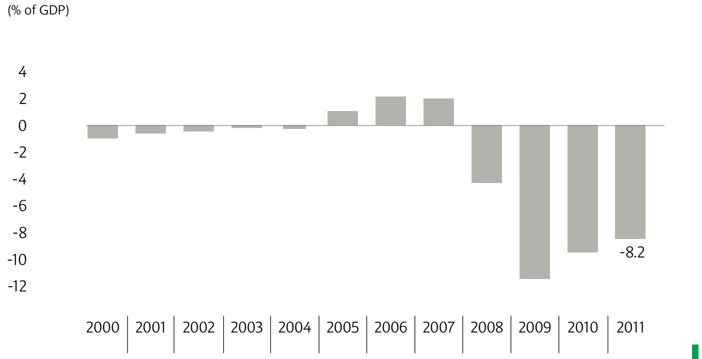
In this context, the new government elected on 20 November, supported by an absolute majority in parliament, announced a reinforcement of fiscal saving measures and structural reforms, including the flexibilisation of the labour market and new measures to increase stability in the financial sector. According to the European Banking Authority (EBA), the capital requirements of Spanish Banks amount to approximately EUR 26 billion (or EUR 17 billion if considering the convertible bonds which the Spanish banks have included as equity). Due to the financial sector's rising funding difficulties, banks increasingly resorted to the ECB's liquidity facilities, with ECB loans to the Spanish banks reaching EUR 119 billion in December. In this economic and financial context the main rating agencies downgraded Spain's public debt rating, which stood at AA- at the end of the year.

Despite a slowdown in the last months of the year, the average annual inflation rate increased from 1.8% in 2010 to 3.2% in 2011, reflecting the lagged effects of the VAT rise in 2010 and the increase in energy prices.

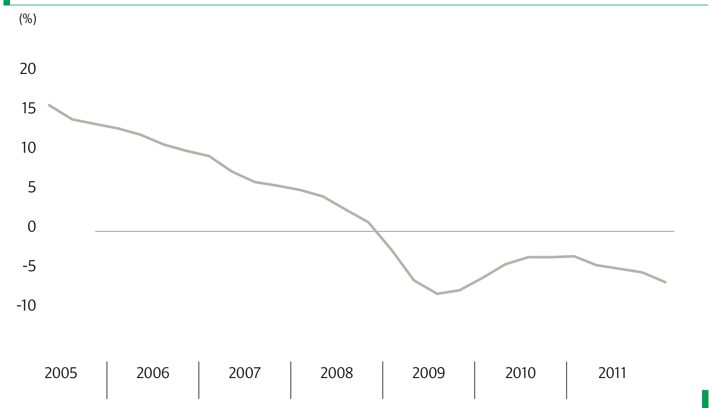
Spain – Unemployment Rate (% of Labour Force)



Spain – Fiscal Balance



Spain – House Prices (YoY rate of change, %)



Portugal

In Portugal, 2001 was marked by contagion effects from the Eurozone debt crisis and the start of implementation of the economic and financial adjustment programme. To the overall deterioration in financing conditions and investors' growing aversion to risk, there added, in the case of Portugal, the successive cuts of the sovereign debt rating (to BBB- by S&P, and Ba2 by Moody's, at the end of 2011). The yield on 10-year public debt securities rose from 6.6% to 13.4%, widening the spread against the German bunds' yield by 789 basis points, to 1,153 basis points.

The financial adjustment programme agreed with the IMF-EU-ECB, under which the Portuguese economy receives a bailout package of EUR 78 billion, started to be implemented in May and has already been subject to two favourable assessments by the official creditors. On the fiscal consolidation front, the public deficit has been reduced from 9.8% to close to 4% of GDP. Although this was in part achieved through extraordinary measures (chiefly the partial transfer of banks' pension funds to the general public pension system), it also translates the important effort undertaken to reduce public expenditure, which grew below budget, and good budget implementation, in line with estimates. A primary surplus of 0.3% of GDP and a structural deficit of 2.6% of GDP are expected for 2012.

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

On the other hand, the fiscal consolidation effort induced a contraction of domestic demand in 2011, with public and private consumption retreating by ca. 3% and investment by ca. 11% (average annual terms). Exports of goods and services continued to grow at a brisk pace (close to 7% in real terms), with Africa, Latin America and Asia becoming increasingly important destinations. The performance of exports cushioned the annual contraction of GDP (estimated at ca. 1.5%), and above all contributed, alongside the ongoing deleveraging process in the various sectors of the economy, to a significant decrease of the external deficit - from 8.8% to ca. 6.1% of GDP – with an additional reduction being expected for 2012, to around 2% of GDP. Portugal's net stock of external liabilities has also diminished, down to close to 103% of GDP, which compares to a peak of 110% in 2009.

Portugal – Main Economic Indicators

	2004	2005	2006	2007	2008	2009	2010	2011
GDP	1.6	0.8	1.4	2.4	0.0	(2.9)	1.4	(1.5)
Private Consumption	2.7	1.7	1.8	2.5	1.3	(2.3)	2.1	(3.2)
Public Consumption	2.4	3.4	(0.6)	0.5	0.3	4.7	0.9	(2.8)
Investment	3.7	(0.9)	(0.6)	2.1	(0.1)	(13.3)	(3.6)	(10.7)
Exports	4.1	0.2	11.6	7.5	(0.1)	(10.9)	8.8	6.9
Imports	7.6	2.3	7.2	5.5	2.3	(10)	5.4	(2.6)
Inflation (CPI)	2.4	2.3	3.1	2.5	2.6	(0.8)	1.4	3.7
Fiscal Balance (% of GDP)	(3.4)	(5.9)	(4.1)	(3.1)	(3.6)	(10.1)	(9.8)	(4.0)*
Public Dept (% of GDP)	57.6	62.8	63.9	68.3	71.6	83.0	93.3	101.6
Unemployment								
(% of working population)	6.7	7.6	7.7	8.0	7.6	9.5	10.8	12.7
Balance (% of GDP)	(6)	(8.2)	(9.1)	(8.9)	(11.1)	(10.1)	(8.8)	(6.1)

E - Estimate
*Considering impacts from transfer of banks' pension funds to Social Security.
Source: INE, BoP,Ministry of Finance, European Comission, OCDE, ES Research

3. Commercial Activity

Banco Espírito Santo Group is a universal financial services group serving all client segments – individual, corporate and institutional. Product innovation, focus on quality service, and strong awareness to the BES brand (particularly in attributes such as solidity and trust) make the Group a reference in the national and international market.

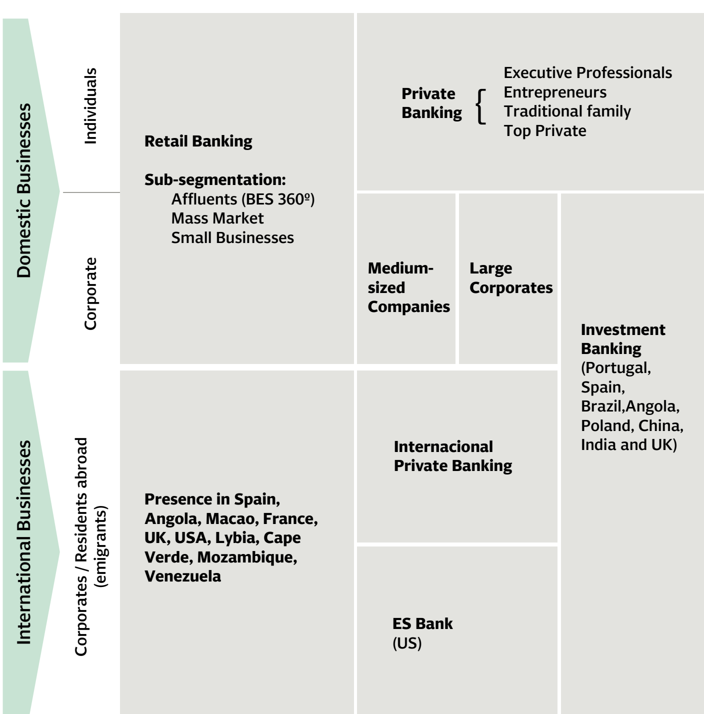
When monitoring the performance of each business area, the Group considers the following operating segments:

- 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 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).

Banco Espírito Santo's segmented approach to the market permits to offer a wide range of products and services addressing the needs of each client segment.

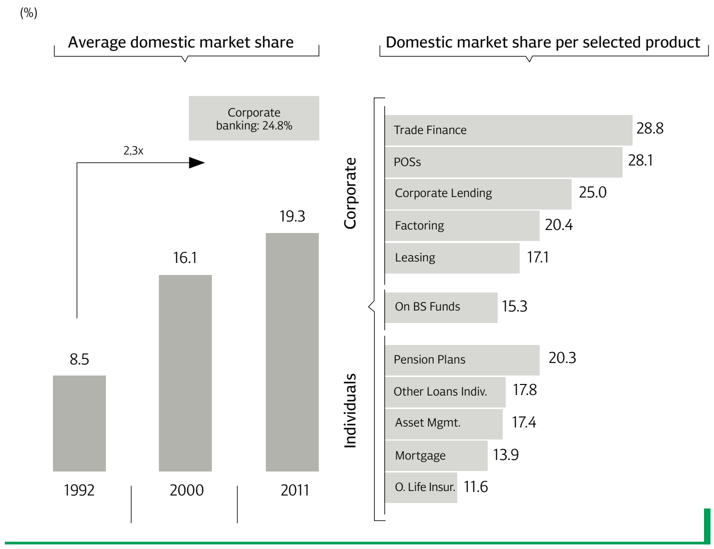


3.1 Domestic Commercial Banking

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 2011, rising from 8.5% to 19.3%.

In 2011 the Group posted a very strong market share in the corporate banking business lines, namely in trade finance, where it reached 28.8%, substantiating BES Group's important role in the internationalisation of the Portuguese companies.

Market Share – Average and by Product*



*Sources: APB; BdP; APFIPP; ISP; ASP; APLEASE; APEF; Euronext; SIBS; SWIFT; CMVM; BES

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"). To serve these clients, the Bank has a network currently comprising 701 branches (representing a net reduction of 30 branches during the year resulting from 37 closures and 7 openings).

In 2011 the retail segment was supported by the following main growth drivers: (i) strong focus on attracting customer funds; (ii) selectivity in credit granting; (iii) maintaining a high level of cross-selling.

- The effort to attract customer funds once again yielded expressive results through the increased demand for on-balance sheet customer funds. As a result the loan to deposits ratio in retail improved by 46 pp year-on--year. In order to foster the growth of customer funds, the Bank launched media campaigns featuring Cristiano Ronaldo, as well as several innovative solutions, including the new Scheduled Contributions savings plan, which reached 142,000 subscriptions at the end of 2011;
- Selective credit granting combined with strong decrease in demand (from both individuals and small businesses) caused the loan portfolio to contract

- by 5.5% year-on-year. The risk profile of mortgage credit production continued to improve: the loan-to-value ratio in new contracts was 6pp lower in 2011 than in 2010;

- In order to ensure sustained levels of cross-selling, the commercial dynamics was supported by a wide range of innovative products, services and tools, with new launches in 2011 including the customer relationship management platform and the Family Budget application.

Client acquisitions were very strong in 2011 (a total of 129,000 new clients), as a result of coordinated action between the branch network and the main client acquisition channels, in particular the cross-segment and Assurfinance programmes).

Assurfinance

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 2011 attracted around 19,000 new clients to the Group.

The Assurfinance programme operates from 48 on-site branches, an increase of 4 units in 2011 due to the strong driver of retail activity that these units represent.

BES 360º: 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.

The competitiveness of the value proposition offered to BES 360º segment is supported by a number of strategic and distinctive initiatives:

- 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 a range of structured and impulse saving products -, but also their non financial needs, namely specific healthcare and leisure 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;

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. A highlight in BEST's activity in 2011 was the development of a new mobile website, which, in addition to current operations (e.g. integrated and detailed account enquiries, transfers, credit card management, chequebook requests, payments and mobile phone top-ups), also permits the geo-location of the bank's centres. The new website also features a Mobile Trader module permitting online monitoring of the main global financial markets, trading on more than 1,200 securities, and real time updating of investment portfolios, as well as the eBudget, an application for iPhone, iPod Touch, iPad and Android Smartphones, made available to clients and non clients, permitting a practical, "on-the-go" management of daily expenses, which already has a truly global reach, (with downloads not only in Europe but also in Brazil, China, the US, Canada, Japan, India, Australia, and South Africa). Also in 2011 BEST launched the BONDS FOR ALL service, a ground-breaking tool allowing private investors to purchase and sell bonds. The new service provides simple and fast online access to the widest offer of bonds in Portugal, allowing over-the-counter trading in Portuguese public debt, Portuguese corporate bonds or bonds issued by important international organisations. The SAXO CAPITAL MARKETS powered by BEST, launched in the United Kingdom late in 2011, attests to the capabilities of the Bank's platform in banking activity and asset management in one of the most competitive and sophisticated financial markets in the world. Despite the adverse environment, BEST achieved an increase in activity, with credit volume and customer deposits rising year-on-year by 10% and 19%, respectively. Total client assets under custody reached EUR 1.6 billion at year-end, with net income increasing by 21% year-on-year, to EUR 7 million.

Small Businesses: focus on the effective management of Clients' working capital needs

In the current context of economic slowdown, the Small Businesses segment elected as a priority of its commercial activity to offer innovative and competitive cash management and payment and receipt solutions which allow the Clients to manage their working capital requirements more effectively, streamlining costs and the need to resort to bank credit.

This involved the following actions in 2011:

- Redesign of the offer of Cash Management Solutions ("BES Small Businesses Solutions") and Point of Sale Terminals ("BES Small Businesses Packs") to suit the requirements of micro companies and independent professionals. As a result, the number of POS terminals installed increased twice as much as in 2010, lifting BES's market share in this product. The inclusion of check books in the 'BES Small Businesses Solutions' offer, and a clearer price differentiation between the various options filled an important need and was very well met by the clients.

- Increased focus on the sale of the 'BES Express Bill' solution (launched in 2009 and extended to the Small Businesses segment in 2010), an innovative system for payments and receipts permitting to issue forward payment orders guaranteed by BES. In 2011 a total of EUR 63 million in credit facilities were approved, to 900 clients in this segment, which during the year used this solution to make supplier payments amounting to EUR 20 million. In addition, 1,200 clients benefited from payment orders guaranteed by BES totalling EUR 75 million.

Given the emphasis placed on counselling and the sale of solutions to support the management of payments and receipts, the significant increase in assets under management in the small businesses segment, reached EUR 3,000 million.

The support provided to the partners in client firms by specialist account managers, at personal and professional level, represents one of the more distinctive features of BES's approach to the segment. An integrated vision of the clients' needs, considering the interconnected impacts between personal and business events and taking a genuine interest on seeing them succeed over the various phases of their life, make BES the partner of choice in the Small Businesses segment, while also furthering BES's ambition of achieving a high level of penetration in firms whose partners have opted for concentrating a substantial part of their assets with BES and who resort to the bank for support in their day-to-day management needs. As a result of this joint approach of partners and firms, 4,300 new partners in client firms became BES clients in 2011.

Mass Market

The growing difficulties faced by the Portuguese economy in 2011 impacted BES's individual clients: the increase in unemployment rate and the reduction of available income contributed to reduce demand for credit (both mortgages and consumer) and reinforced 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.

The innovative **Planned Saving** offer, which is now much more flexible and convenient - allowing for small monthly contributions starting from 10 euros, or the rounding up of payments (cards, insurance, or other) to save the difference - permitted a substantial increase in the number of families making regular contributions to saving plans. Adherence to this offer was very significant with more than 142,000 new accounts opened in 2011, proving the growing need to broaden the scope of saving. Moreover, the launch of competitive and innovative savings products, such as the '**Conta Rendimento CR**' (Cristiano Ronaldo income account), supported by strong communication initiatives, decisively contributed to the increase in total customer funds in the mass market segment, which rose by 8% year-on-year, with on-balance sheet customer funds growing by 20%.

In a scenario of growing uncertainty, the Group continued to stress its offer of insurance products providing protection for families facing unpredicted situations. In its large and competitive range of insurance products, one of the more relevant in the current context is the **Salary Protection Insurance**, which ensures an extra compensation (35% of the salary for a period of 6 months) in case of involuntary unemployment.

In 2011 the use of the Direct Channels continued to increase: the internet banking service for individual clients – BESnet – reached 1,241,000 subscribers in December (+4.6% YoY), while the number of frequent users and the number of logins rose year-on-year by 6.7% and 11.2%, respectively. 2011 was also a year of consolidation for the BESmobile service for individual and corporate clients, which features applications for Android and Iphone and a web solution for other platforms: the number of subscribers reached 45,000 in December 2011 (+313% YoY) while the number of transactions performed through the service has already surpassed those made through the traditional BESdirecto phone service. The signature in BESmobile of transactions prepared at BESnetwork, to meet businessmen's mobility requirements, and an Impulse Saving app, are among the more innovative features of this service. A new and much improved BESnet website was also launched at the end of the first half of the year, with a fully renewed design and distinctive browsing solutions aiming at greater ease and simplicity of use. A Marktest survey made after the launch of the new BESnet found that the number of very satisfied clients had risen by 25.4%. In line with the motto "new times call for new ways of saving", the Direct Channels also promoted the new saving concepts, such as planned, micro and impulse saving, namely introducing the "Family Budget" tool to support the Portuguese families in their saving efforts. This is a user friendly instrument fully integrated with BESnet which permits, at a glance, to view a family's expenditure and revenue profile. The Family Budget has been highly successful, boasting 50,000 users at the end of 2011, an average of 1,000 subscriptions per day, and 125 million transactions automatically classified by the system. A great number of clients have also written to the Bank to convey their satisfaction with this new took and its user-friendly functioning. In 2011 BES was the bank with the highest growth in internet banking penetration (Marktest data), thus consolidating its leadership in Portugal in this area.

The Group also operates in the mass market segment in the Azores, through **Banco Espírito Santo dos Açores**. The situation in Portugal and the measures taken by the government, which also applied to the Autonomous Region of the Azores, strongly affected the activity and results of Banco Espírito Santo dos Açores in 2011. While credit growth decelerated and efforts to monitor and recover problematic loans were further intensified, the Bank focused on attracting customer funds. At the same time, Banco Espírito Santo dos Açores pursued its strategy viewing the acquisition of new clients and the increase of its market share, having signed new protocols with regional companies and institutions. In 2011 customer deposits increased by 5.1% year-on-year while customer loans dropped by 0.9%).

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.

Saving Products

BES has reinforced its positioning as a "Saving Bank", broadening its offer of saving products, increasing its intervention in the field of financial literacy and adopting the motto "new times call for new ways of saving".

The new solutions developed in 2011 aim to reduce the effort of saving. These new tools are simple and easy to use, allowing the client to save regularly, and by small amounts at each time. They represent the further extension of a leading policy in the offer of financial saving products, whose objective was to induce saving habits in people who were not used to doing it.

Planned saving

Planned saving, the first innovative product launched by the Bank in 2011, aimed to expand the offer of saving products and at the same time to reach a higher number of families with regular saving habits. This is how it works: the Client agrees to subscribe to a plan of monthly contributions. The amount (10 euros minimum) and day of the contribution are chosen by the Client, who can thus fit his savings to his family budget.
The Clients may also choose between planned saving plans with the duration of 1, 3, 5 or 10 years. In its first year, approximately 142,000 clients subscribed to the planned saving plan, with 73% of them opting for maturities of 3 or more years. It is interesting to note that 43% of these clients are under 35, the age group that traditionally saves less.

Micro saving

The purpose of the micro saving product is to create saving habits in people who generally believe they do not have the capacity to save. This is how it works: with the client's agreement, the bank rounds up the amounts debited for daily expenses, and the difference is deposited in a saving account. The Client may cancel this service at any time, as well as define in which accounts the savings are to be deposited.

Impulse saving

Impulse saving allows clients who have the "Save" application for smartphones to add small amounts (5 to 50 euros) to their savings, through a simple touch in the phone screen. The clients can thus save in the exact moment when they decide to do so, which means that they will save more often and with less effort.

Family budget

The Bank of Portugal "2010 survey on the financial literacy of the Portuguese population", 89% of the respondents said that planning a family budget is important or very important. Being aware of this fact, Banco Espírito Santo created the 'Family Budget', a service that automatically organises and classifies all the revenue and expenditure movements in the client's account, free of charge. This gives the client a real image of his budget, and more importantly, it allows him to monitor the evolution of income and expenditure and identify which expenses can be reduced in order to create some slack.

Microcredit

In 2011 the Microcredit Office continued to develop its activity of supporting and stimulating entrepreneurship. The mission of the network of microcredit account managers, which covers the entire national territory, is to identify potential entrepreneurs, and either support their projects through the development of business plans, or refer them to other entrepreneurship support lines.

In 2011 BES reinforced its investment in the communication of this product, namely through:

- Distribution and communication of the product on the social networks and the internet, as a complement to the investment made in the associated products and services which illustrate the success of entrepreneurs who resorted to BES microcredit;

- Protocols with local organisations, such as trade associations or not for profit outfits, with the capacity to identify potential entrepreneurs and refer them to the Bank's commercial network;

- Local employment forums in different towns across the country. The Bank participated in public sessions and training actions in which the concept of microcredit was explained to social solidarity institutions;

- Publication of a book on microcredit, "Small businesses, great stories", about the success stories of small entrepreneurs.

In 2011, approximately 85% of microcredit loans were approved. The National Association for the Right to Credit, a BES partner for microcredit and the main promoter of microcredit in Portugal, Immigrant Associations, and local development agencies were also important canvassing channels.

The Microinvest and Invest + credit lines, developed by the Employment and Vocational Training Institute and jointly promoted with BES, represented 55,7% of the total micro loans granted. These credit lines share with BES the same objective, i.e., to promote self-employment and give an opportunity to the unemployed or young people faced with the risk of social exclusion. Due to the current situation in the country, total loans dropped by 31%, however 115 entrepreneurs saw their operations approved, and 245 new jobs were created.

The Bank will maintain its commitment to microcredit, viewing the creation of opportunities to unemployed people, new residents, entrepreneurs or artisans who need support to develop their own businesses and create their own jobs.

New Residents

Due to the economic stagnation in Portugal in recent years, many immigrants have left the country. As a result, both customer funds and customer loans in this sub-segment have decreased, by 10% and 6%, respectively, compared to 2010.

BES continued to improve and diversify its services for immigrants who chose Portugal as their new country of residence. As an example, under the agreement signed by BES Group in 2011 with the Industrial and Commercial Bank of China (ICBC), the Chinese community in Portugal have at their disposal a remittances service which allows them to send money to China in a simple and convenient manner (in the Bank's branches, ATMs, or through the internet), in 24 hours and at a low cost.

The Bank also continued to promote partnerships with immigrant associations, as well as its offer for the segment, which includes the Family Links card and the BES Express product, which permit the transfer of money between immigrants and their families.

Universities

In 2011 BES signed a new protocol with the Guarda Polytechnic Institute and renewed its protocols with the Trás-os-Montes e Alto Douro University (for another 5 years) and with the Coimbra Higher Nursing School.

The Bank has a specialised independent central unit responsible for the marketing strategy and management of university students, which, complemented by 6 branches located in universities, and its overall branch network, guarantee an adequate proximity to the universities segment.

The BES UP Internships programme, which completed this year its 6th edition, continued to provide a good example of how to give students an opportunity to deepen the knowledge acquired in their courses, enrich their experience and ease their subsequent entry into the labour market. In 2011 the BES UP Internships Programme received 3,200 applications (60% more than last year) and hosted 187 interns. BES UP is today a reference in Portugal, as well as having a wide reach, covering 18 entities between BES Group companies and outside organisations.

To further increase communication and proximity with the university students, in 2011 BES created a BES UP page on Facebook, a privileged means of communication amongst the young, which already has 18,000 fans.

In the context of its relationship with the higher education institutions, the Group supported multiple initiatives, namely the requalification of the Castelo Branco Polytechnic Institute's Laboratories, the "Darwin's Evolution" exhibition, organised by the Porto University, and the concerts held to celebrate the 100th anniversary of the Lisbon University, promoted by the Faculty of Sciences.

To recognise merit and excellence, in 2011 BES awarded more than 50 prizes to students who stood out for their high classifications in higher education courses.

In the current context in which university students feel increasingly concerned about their employment prospects, BES maintained its partnership with PT/SAPO on the BES/ SAPO University Students Employment portal, which considerably improved its offer of jobs, traineeships, voluntary work and opportunities for creating one's own job. The BES/ SAPO portal, the leading national employment website, also offers a Career Guide, with relevant information on how to pursue a professional career. Finally, the 4th edition of the SAPO Employment virtual fair fostered closer links between companies and young graduates, and was a great success.

Senior Citizens

The offer of products and services for the senior citizens is adapted to the specific needs of this segment of the population, aiming to facilitate their relations with the financial system and thus improve their quality of life.

Customer funds in the senior citizens segment increased by 4% year-on-year. Customer loans were up by 0.7%, to EUR 318.7 million, underpinned by the consolidation of BES's offer for the segment – No. 1 Account and Senior Mortgage credit (with maturities of up to 30 years).

The No. 1 Account is a pack of financial services comprising a free of charge health card (with no age limit, no waiting period, except for a 3-month period for inpatient treatments, and no limit on the amount or number of medical acts), medical and technical assistance, travel benefits and discounts on insurance products.

Environmental Products and Services

Being aware of the challenges posed by climate change and the loss of biodiversity, BES has invested in the offer of financial products and services that engage the client in the preservation of nature and the reduction of energy consumption.

Renewable Energy Credit and support to acquisition of energy certificate

BES Group has taken upon itself the responsibility of exerting a positive influence on its clients, encouraging them to use equipment that reduces their energy bill and consequently the emission of greenhouse gases. To this end, the Group promotes the acquisition of the energy certificate, issued under a partnership with specialised firms, which also offer an energy audit report, efficient light bulbs, and recommendations on the ideal subscribed power for each case. As a complement to this service, the Renewable Energy Credit supports the acquisition of solar and photovoltaic panels to streamline energy efficiency and promote microgeneration through renewable energy sources.

In 2011 BES lent approximately EUR 0.5 million to 51 clients who benefited from these special conditions on the acquisition of this type of equipment.

18.31 Account

With the aim of raising awareness among consumers and at the same time introduce in the market a more efficient product in terms of consumption of resources, Banco Espírito Santo created the first carbon neutral bank account in Portugal, the 18.31 Account.

With the assistance of a specialised firm, the carbon footprint of the 18.31 Account during its entire life cycle was determined in accordance with PAS2050:2008, a method for determining the carbon impact of products and services. Each new account will have an estimated carbon footprint of 1.6 kg CO_2eq/year, of which approximately 91% corresponds to the phase of using the account. Taking into account the measures adopted and the forecast number of accounts sold, it should be possible to save 28 tonnes of CO_2eq/year, which represents a 20% reduction of carbon emissions compared to a traditional account.

Non avoidable emissions - 147 tonnes of CO_2eq, the equivalent of 342 barrels of oil, which is the estimated carbon footprint of the BES 18.31 account in its first year - were offset, permitting to obtain the e)mission neutral certified® stamp, and to give the clients the assurance that they were buying a carbon neutral product.

In its first year, the existing 77,358 accounts permitted to purchase carbon credits to offset the non avoidable emissions. These emissions were offset by supporting a project to replace the fuel used by ceramics industries in the state of Rio de Janeiro, Brazil.

BES/WWF Card

In 2010 BES and the World Wide Fund for Nature (WWF) entered an innovative partnership to launch the first "biodiversity" credit card in Portugal. In 2011 the Bank continued to promote this card, and extended the possibility of its acquisition to 18.31 account holders.

The WWF is the world's largest independent organisation for biodiversity conservation. In 2011 there were 131 clients with BES/WWF card, thus contributing to finance nature and biodiversity conservation projects in the national territory, namely projects for the preservation of the Portuguese forest, fight global warming and save water.

3.1.2. Private Banking

Through 22 private banking centres in Portugal, ES Private Banking monitors high networth clients, with assets under management totalling EUR 7.1 billion at year-end.

The current situation in Portugal made it necessary to pay a closer attention to these clients, at various levels. The needs of these clients, typically top level entrepreneurs and executives, benefit from a global and attentive monitoring conducted by the Group's financial advisory and investment banking experts. This regular and systematic monitoring of clients' investment portfolios by investment specialists permitted to adjust the asset allocation to the risk profile of each client, taking into account the financial crisis scenario, resulting in a reduction of exposure to higher risk assets and an increase in lower risk andmore liquid assets.

This effort to achieve greater proximity to the private banking clients also focused on increasing their everyday dealings with BES Group. A number of initiatives were taken to this end, including the Private Account, which combines a series of advantages intended to help the clients in their everyday management. The 'YES Private Services' package, created under a partnership with Europ Assistance, offers tailor made solutions designed for ES Private Banking's clients, including Concierge, Travel, Security, Healthcare and Assistance services. This package is supported by a qualified dedicated team, fully independent from the Bank, which provides a service of excellence and is permanently available to address the clients' needs.

3.1.3. Corporate Banking and Institutional Clients

This business area focuses on the commercial relationship with large and medium-sized companies, as well as with institutional and municipal clients. Given their importance in the national business community and in the Portuguese economy in general, these clients deserve particular attention from BES Group, which strives to offer them solutions that add value to their businesses and support their initiatives.

The unit serves more than 22,000 clients with a total financial involvement of more than EUR 1 billion in December 2011, through 24 Corporate Centres, a dedicated team of 125 corporate bankers for medium-sized companies, and two teams of 18 corporate bankers each for Large Companies, based in Lisbon and Porto. These commercial structures provide a specialised relationship banking service, supported by the multispecialist organisation model which has allowed BES Group to maintain a leading position in the corporate banking segment. To uphold this leading role, The Group must keep the offer of products and services permanently adjusted to the clients' needs, giving particular attention to the solutions that support internationalisation, innovation and the financing of the Portuguese economy.

Support to internationalisation

Particular attention has been paid to the exporting companies and those that are expanding abroad, supported by the Group's strong international presence, its network of more than 2,200 correspondent banks, and its recognised know-how in trade finance.

As a result of this strategic focus, 43% of the Portuguese exporting companies are BES Group clients and its market share in trade finance is 28.8%. In line with the increasing economic interconnection within the Iberian market, client acquisition and business development are supported by close cooperation between domestic and Spanish commercial networks: of all the Iberian companies with good risk profile, ca. 50% are BES Group clients.

In addition, BES Group has a team fully dedicated to supporting the internationalisation of the Portuguese companies: the International Premium Unit, through its specialised teams, provides effective support to these companies, from the initial identification of the exporting potential of each company, to the prospection of the ideal destination for their exports, the selection of the right partners, the execution of international trade transactions, and the support to investment in the destination markets, all in perfect coordination with the Group's international network and with partner and correspondent banks.

During the year the Group also launched other important initiatives to support the internationalisation of the Portuguese companies:

- Joint organisation for the 5th consecutive year of the Forum Portugal Exporter, the largest and most important event dedicated to promote Portuguese exports, in which ca. 1,500 entrepreneurs participated;

- Reinforcement of the partnership with the Jornal de Negócios newspaper concerning the "BES/ Jornal de Negócios Exports and Internationalisation" prize, which is awarded to companies with the best performance in expanding their presence abroad and increasing exports;

- Publication of a regular supplement in the Expresso newspaper ("Companies and Internationalisation") with information about the strategic markets for the Portuguese companies, business opportunities in these markets, and reports from Portuguese companies that were success cases in those markets.

Support to Innovation

In 2011 the Group pursued its effort to support innovation, based on three pillars: Stimulate Innovation, Finance Innovation, and Monitor Innovation.

- **Stimulus to Innovation** - the BES National Innovation Awards, held this year for the 7th time, are the highlight of BES's activity in this area: in addition, the Group continued to develop communication and awareness raising initiatives through its Innovation Roadshows, which this year travelled through the Oeiras-Estoril, Aveiro—Coimbra and Braga regions;

- **Financing of Innovation** - this is mainly the responsibility of Espírito Santo Ventures, Sociedade Capital de Risco, which in 2011 launched two new funds exclusively targeting Portuguese companies, one of them promoted in cooperation with the Instituto Superior Técnico, for companies in the Seed and Pre-Seed phase, and the other intended to support the internationalisation of innovative companies;

- **Monitoring of Innovation** - BES's Support to Innovation Programme has permitted a significant increase in the number of innovative opportunities springing up throughout the country, while reinforcing the capacity to screen the best among these opportunities; in addition, the Group has been expanding the services and products included in its offer for innovating companies;

Furthermore, yet other initiatives were taken to support innovation:

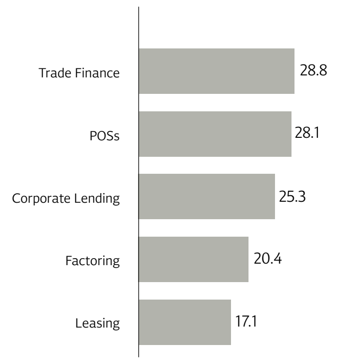
- Management Course for Innovators, held during the first half of the year, under a partnership with the Portuguese Catholic University;

- Active collaboration with key innovation hubs, such as incubators and technology transfer centres;

- Meetings and conferences involving start-ups and potential investors.

Corporate Banking Market Share

(%)



Source: APB; BdP; APFIPP; ISP; ASP; APLEASE; APEF; Euronext; SIBS; SWIFT; CMVM; BES

Middle Market

Due to its consolidated business model and adequate geographic presence BES Group has a deep-seated knowledge and close links with the business community. These key factors of the commercial approach permit to take fast decisions and maintain a consistent credit policy, both qualities being valued by the clients. Despite the economy's stagnation, in 2011 the Group increased domestic credit to companies by 1% and credit to the exporting companies by 12%, showing its clear commitment to the Portuguese companies with the capacity to create wealth for the country.

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 2011, namely:

- In Life and Disability Insurance for employees of corporate clients, the number of new policies increased by 40%;

- The cross-selling of non-life insurance products continues to provide a very good complement to the banking offer, leading to portfolio and revenue growth of 13% and 27.6%, respectively;

- Renting continued 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 28% increase in results attributable to the middle market segment;

- In human resources solutions, such as staff recruitment, training, outsourcing and placement of temporary workers, provided under a partnership with Multipessoal, revenues grew by 81%.

Constant monitoring and prospecting for new clients viewing the identification of customers with a good risk profile continued to prove a priceless client-acquisition tool, which, allied to an innovative and competitive offer, led to the acquisition of 610 new active clients in 2011.

At Iberian level, a new team of 3 Iberian bankers reinforced coordination between domestic and Spanish commercial networks, fostering client acquisitions and business in the Iberian market and adding a new impetus to the commercial activity.

Of all the Iberian companies with good risk profile, ca. 50% are BES Group clients.

The "PME Investe" credit lines programme continued to be an excellent tool that allowed companies to reinforce their permanent capital.

The Group maintained its strong commitment to supporting the investment made by the SMEs, holding an 18% share of total loan applications analysed by the mutual guarantee entities under the PME Investe Programme. BES has approved EUR 2.2 billion in loans to the Portuguese SME since the programme was created.

BES Express Bill

2011 saw the consolidation of this innovative and exclusive payments and receipts solution, which radically changed the way payments are made between companies.
The BES Express Bill creates a climate of trust and certainty in commercial transactions and is recognised by clients as a business facilitator and an important source of liquidity to ease companies' cash management constraints: sellers have BES's guarantees that they will be paid on time and buyers gain bargaining powers and can therefore obtain better payment conditions.
So far, ca. 10,000 companies have already used this new credit instrument, with more than EUR 1.7 billion in facilities approved (guaranteeing payments of EUR 8 billion per year).

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 2011 the fund had invested EUR 81 million in 15 companies from different sectors, while also assisting them in pursuing their business strategy.

The role of venture capital in BES Group

Espírito Santo Ventures invests, through venture capital funds, in technology based companies and innovative business projects with high-growth potential, original business products and concepts targeting the international market. Espírito Santo Ventures has around EUR 250 million in assets under management invested in 40 companies that are developing worldwide leading products and services in the areas of Clean Tech, Health Care & Wellbeing and IT.

Two new funds exclusively investing in Portuguese companies stand out in 2011:

- "Espírito Santo Inovação e Internacionalização" fund, now closed for investment, with EUR 10 million of committed capital to invest in Portuguese companies and support their international expansion (sponsored by COMPETE programme);

- "ISTART-1" fund, now closed for investment, with EUR 3.0 million of committed capital to invest in the seed phase of business projects originating in universities and research institutes (sponsored by COMPETE and PORL programmes).

Four investments were made in 2011, three of which in Portuguese companies:

- **Current:** US-based company offering innovative smart grid infrastructure products for the energy industry. Global investment of EUR 2 million (USD 1.5 million) ("Espírito Santo Ventures III" fund);

- **Feedzai:** a spin-off from Coimbra University's IT department, Feedzai is a Portuguese company with an innovative technology for real time processing of large volumes of data. Global investment of EUR 350,000 ("Espírito Santo Ventures III" and "Fundo de Inovação e Internacionalização" funds;

- **BERD:** Portuguese engineering company, with an innovative solution for the design of bridges and viaducts structures with very wide spans, permitting to reduce the number of pillars and overall construction costs. Global investment of EUR 2 million ("Espírito Santo Ventures III" and "Espírito Santo Ventures Inovação e Internacionalização" funds);

- **Domática:** Portuguese company that developed a flexible control platform for compatibility between software and hardware, capable of interacting with general input and output applications, including sensors and actuators.

This platform has a wide range of applications, namely in energy efficiency, power quality, security, or domotics, and can be installed either separately or in existing systems (including closed systems). Investment in 2011: EUR 1 million ("Espírito Santo Ventures III" fund).

FAME

In 2011 BES continued to offer the FAME fund, a tool created by the Bank in 2009 to support local development through the financing of micro companies, covering municipalities across the entire country. FAME is integrated in Axis III of the Finicia programme, involving Mutual Guarantee Companies, city councils, the Institute to Support Small and Medium Sized Companies ("IAPMEI") and regional development societies. The involvement of these entities provides assurance that the support given is used more effectively, while lowering the financing risk.

In 2012 BES will continue to offer this facility, negotiating with the local partners the best financing conditions in the current economic context.

BES Sustainable Environment and Energy Solutions 2011

In 2011 BES redesigned its BES environment & energy offer in order to better adjust it to the clients' needs. In partnership with Yunit (which manages the entire implementation process) and ISA (the strategic partner for energy efficiency audits), BES offers a credit line to finance energy efficiency and microgeneration projects, thus helping its clients invest in ecoefficiency and the production of green energy.

The following options are available:

- Energy efficiency solutions – development and implementation of energy consumption rationalisation plans and solutions that take into account technical and economic viability based on an energy study provided to the client.

- Microgeneration, offered to clients who wish to diversify their energy supply sources and become energy independent through the production of renewable energy.

Environmental Liability Bank Guarantees

Within the context of the environmental liability law, enacted by Decree-Law no. 147/2008, BES offers to Portuguese companies bank guarantees issued in favour of the Portuguese Agency for the Environment, to cover the restoration or prevention of environmental damages, or imminent threats arising from a company's activity. In 2011 the Bank provided 24 of these guarantees, thus helping its clients comply with the environmental legislation.

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.
Close cooperation with the area of investment banking continues to be decisive in the monitoring of the large national and multinational companies that use their subsidiaries in Portugal as a platform to enter other international markets, namely in the Community of Portuguese Speaking Countries.

The Investment Banking area's strong specialist focus and knowledge about the international markets permits to support companies' needs in areas that largely surpass the scope of traditional credit transactions, including cross-selling solutions (cash management services using electronic means of payment that complement the traditional commercial offer), trade finance and financial advisory services.

The International Premium Unit was instrumental in the success of the strategy of supporting the internationalisation of the corporate clients, having fully and permanently monitored 643 clients from 142 different business conglomerates in 2011.

The work developed by the Unit, in coordination with the entire corporate area at national level, has generated 1,400 new business leads and supported the internationalisation processes of 560 new clients.

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 third sector institutions) have the support of expert teams based in Porto, Coimbra, Lisbon, Setúbal and Faro. The specialisation of the Bank's teams and the close links established with the segment permit to develop long-term partnership activities with the institutional clients.

In the third sector, or social economy, area, 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 and their employees preferential commercial terms. This bet on an area with such an important weight in the national economy has made Banco Espírito Santo the reference partner in the third sector, while contributing to increase its client base, namely through the employees of these institutions.

Its links to the Social Economy have allowed BES to develop a microcredit programme for people with an enterprising spirit but at risk of social exclusion. Along with other facilities provided by the Government, namely through the Institute for Employment and Vocational Training, the BES Microcredit Programme, launched in September 2009, has already contributed to create 750 jobs in Portugal.
The Bank continued to support investments in social economy institutions included in programmes promoted by the Social Security and Health ministries, by providing complementary financing to these programmes.

Financial involvement with social economy institutions totalled EUR 240 million in 2011, representing an increase of 2% in relation to 2010.

Finally, the Bank also continued to assist financially an Advanced Training Course on Private Social Solidarity Institutions (IPSS) Management, taught at the Lisbon Catholic University.

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 the second largest private commercial bank operating in Angola by total assets under management and the largest by net income, while consistently boasting the best profitability and efficiency indicators in the local market. The Bank also stands out as the largest direct finance provider to the Angolan economy, and for maintaining strict credit granting criteria. During the year BESA's growth was severely restricted by the general economic background and also by changes in Angola's supervision and prudential regulations. BESA continued to expand its offer of products and services for affluent individual clients and corporate clients, consolidating the sale of its "BESA Collection" range of cards, and launching a series of new savings products targeting key segments of the Bank. Net assets totalled EUR 6,841 million at the end of 2011 (+16% YoY). Customer funds increased by 3% year-on-year, to EUR 2,227 million, while customer loans were up by 40% to EUR 3,946 million. Banking income reached EUR 357 million (+5% YoY), underpinned by a 9% increase in net interest income. Capital markets results dropped by 49%, reflecting the international economic conditions as well as the stabilisation of the kwanza/US dollar exchange rate. Despite the 14% increase in operating costs due to activity growth, BES Angola maintained high efficiency levels. Net income for the year dropped by 3%, to EUR 242 million, from EUR 251 million in 2010.

Spain

BES Spain Branch maintained a positive performance in 2011, despite the economic instability in Spain. These were the main highlights of the year: (i) customer deposits grew by 22% year-on-year, while customer loans dropped by 15%, thus improving the branch's self-sufficiency in terms of funding; (ii) the international corporate activity support volume rose by 48%; (iii) the number of identified target clients, mostly in retail and private banking (+57%), increased by 49% YoY, which is ca. 6,000 more than in December 2010; and (iv) continued implementation of the prudent credit risk management policy, involving a reinforcement of provisions. As a result, credit spreads increased significantly, easing the pressure on the cost of liabilities due to strong competition within the Spanish banking system. With banking income growing by 2% and operating costs dropping by 1%, the gross income increased by 5% year-on-year, to EUR 48.4 million. The net profit for the year registered a considerable increase, totalling EUR 8.3 million (2010: EUR 5.7 million).

United Kingdom

BES London Branch (United Kingdom) concentrates its activity in wholesale banking in the European market. Business volume declined in 2011, reflecting on the one hand the adverse climate in the financial markets and the successive downgrades of the Portuguese Republic's ratings during the year, and on the other hand, the deleveraging strategy pursued. In view of these adverse conditions, the balance sheet was adjusted (YoY reductions of 36% in assets and 23% in the credit portfolio). As a result, commercial banking income declined, although still reaching EUR 45 million. In addition, the London branch has also been streamlining costs, namely through a reduction in the number of employees.

United States

The performance of **Espirito Santo Bank** (USA) continued to be penalised by South Florida's difficult situation in recent years, especially in the real estate business, where risk levels are still too high for the Bank's conservative criteria. Even so, the loan portfolio grew to USD 447 million, which is USD 72 million more than in 2010. Customer deposits totalled USD 506 million (9% YoY increase), of which 43% correspond to sight deposits. Assets under management remained flat, totalling USD 1.2 billion at year-end 2011. The net profit for the year was USD 7.8 million.

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 extreme prudence in business development and focus on risk monitoring and management, in line with the Group's current international strategy guidelines. The Bank posted net income for the year of EUR 8.5 million, despite a sharp year-on-year reduction of 60% in the credit portfolio and consequent 35% reduction of the balance sheet, which are aligned to the deleveraging plan implemented.

France

The gross operating income of **Banque Espírito Santo et de la Vénétie** (France) increased by 8% in 2011, despite the difficult economic and financial environment and the increasingly high refinancing costs. This was mainly achieved through the good performance of commercial banking allied to the increasing contribution given by private banking. Banking income grew by 9.9% year-on-year, to EUR 46.5 million. Operating costs and amortisation and depreciation increased by 10%, translating the measures taken to reinforce the control mechanisms and enhance the control functions. Net profit for the year totalled EUR 9.3 million, rising by 8.9% year-on-year.

Libya

With Libya currently consolidating the changes brought about by the fall of the previous regime, **Aman Bank** is in a good position to take advantage of the country's growth opportunities, and all the more so as it was not affected by the sanctions imposed on the country, its infrastructures were not significantly damaged by the conflict, and it remained in operation during the whole transition period. The Bank's management team is currently undertaking a set of initiatives in order to resume the execution of the commercial and operational reinforcement plans.

China

Banco Espírito Santo do Oriente (Macau) registered a 37% year-on-year reduction in the loan book, essentially explained by the deterioration in the Portuguese Republic and banking sector's ratings and consequent implications and decisions that resulted in the implementation of a deleveraging process and increased selectivity in the approval of new credit operations. Lower lending (medium term) activity has been compensated by a significant increase in trade finance operations (L/C Advising/Forfaiting/Discount), taking advantage of the important trade flows between the Popular Republic of China and the countries where BES Group has a strategic position. Attracting customer deposits remains a key priority in the current context: the initiatives developed by the Bank targeting institutional clients as well as local funds resulted in a 13% year-on-year increase in deposits, which were taken at fairly competitive interest rates. Net assets remained practically flat, at ca. EUR 250 million. Banking income grew by 21% year-on-year and the net income for the year increased by 35%, to EUR 2.4 million.

Cape Verde

BES Cape Verde focuses on local corporate banking activity, where it mainly targets public sector companies, subsidiaries of Portuguese companies with interests in Cape Verde, and the local affluent market. At the end of the second half of 2011 the Bank opened a second branch, located in Santa Maria (Sal Island). In this first full year in activity, BES Cape Verde increased by several times both deposit volume and the credit portfolio, while posting a net profit for the year. The BES Cape Verde branch concentrates its activity on credit granting to non resident entities.

Mozambique

Moza Banco (Mozambique) deployed its commercial expansion plan during the year, having opened four new branches in December. This will be followed by a new set of branch openings in the first quarter of 2012, all located in areas where economic activity is more vibrant. At the same time the bank has been reinforcing all its support areas, aligning its processes to best market practices and deploying an ambitious and well-designed plan to train its human resources. Activity has grown at a strong pace, namely in terms of the number of clients, which increased by 85% year-on-year. The Bank posted a net profit in 2011.

3.3 Investment Banking

BES Group's investment banking activity is developed by **Banco Espírito Santo de Investimento** (BES Investimento), whose main objective is to provide services to medium-sized and large companies, institutional clients, and in some specific segments, retail clients, in coordination with the Group's private banking area.

BES Investimento offers a wide range of specialised products and services, including advisory services in mergers and acquisitions, access to transactions in the capital markets (equities and debt), brokerage and portfolio management services, structured finance, including project finance and acquisition finance, and management of private equity funds.

Despite the very adverse climate lived in 2011, with the euro crisis and its collateral effects strongly restricting the investment banking activity, the business proved to be quite resilient. This was mainly due to the reinforcement of international expansion, the increased weight of advisory and intermediation activities, which are less capital and liquidity consumptive, and higher credit portfolio rotation. Total banking income amounted to EUR 238 million, representing a year-on-year decrease of 8.1%. The contribution of the international area to total banking income increased from 65% in 2010 to 72% in 2011, once again translating the results of the strategy pursued.

In 2011 BES Investimento reinforced its international expansion with a strategic bet on the Asian continent. The Bank established a joint venture in **India** with a local partner, the Burman family, initially to open a brokerage house to intermediate equity and derivatives trading and produce equity research (until now conducted by its subsidiary Execution Noble) and subsequently to open an investment bank. The authorisations process to open the brokerage house was under way at the end of the year, and its opening for business is scheduled for April 2012. BES Investimento is also considering alternatives to widen the scope of its presence in **Hong Kong**, where it already has a brokerage house, through Execution Noble.

In all other geographies, the Bank followed a strategy of consolidation.

In **Portugal**, BES Investimento maintained the leading position in equity trading in the NYSE Euronext Lisbon, with a market share of 11.7%, and led some important capital market transactions. It once again ranked in first place in M&A (by number of announced transactions, according to Bloomberg) and participated in the most important operation carried out in the Portuguese market in 2011: the 8th phase of the privatisation of EDP, in which it provided advisory services to China Three Gorges Corporation on the acquisition of a 21.35% stake in the Portuguese electric utility. The Bank consolidated its role as the reference bank in M&A transactions in the Portugal – Spain – Brazil axis, and maintained its position as Iberian leader in mid-market transactions (by number of advised transactions, according to Bloomberg).

Benefiting from an increasingly broad international presence and close coordination with the structures of Banco Espírito Santo, BES Investimento has been striving to further its reach in the corporate segment in **Spain**, viewing the intensification of cross-border business and the development of capital markets and M&A activities. As a result of this effort, the bank participated in 2011 in several emblematic transactions, namely acting as joint leader of Banca Cívica's IPO (EUR 599 million), in which it acted for the first time in this market as co-bookrunner, and providing advisory services to ContourGlobal, on the acquisition of an 800 MW combined cycle power plant from the Gas Natural Group (EV of EUR 310 million), and to the Renovalia Energy group, on the establishment of a 50/50 joint venture for the wind power business with the First Reserve Energy Infrastructure Advisors (EUR 743 million). Despite the adverse economic environment, BES Investimento positioned in 1st place in the Iberian M&A ranking (by number of announced transactions, according to Bloomberg) and maintained a prominent 4th place in the Spanish brokerage ranking, with a 7.3% market share in 2011.

In **Brazil** – the geography that most contributed to consolidated income and results - BES Investimento was in general very dynamic, but particularly in M&A and capital market activities, where it achieved relevant positions in the local ratings: 5th place in M&A (by number of operations completed) and 11th in share offerings and placement of debt, according to Mergermarket. The Bank also provided advisory services to several project finance transactions in the energy and transport infrastructures sectors, reinforcing its positioning in this area. In brokerage, BES Investimento rose to 25th position in the Bovespa ranking, with a market share of 1.1%, underpinned by its recent creation of a derivatives desk. Finally, BES Investimento continued to focus on its newly developed business areas in Brazil, 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**, in the first of integration of Execution Noble, BES Investimento concentrated on reinforcing its activities and setting a difference vis-à-vis the competition, namely through the distribution of Iberian, Polish and Brazilian products in the UK market. During the year the bank concluded several capital market transactions, namely acting as joint bookrunner of the placement of 22.7 million shares of Shaftesbury plc (£102 million), joint bookrunner of Workspace Group Plc's capital increase (£66 million), and sole bookrunner of the placement of a block of 18.8 million shares of GlobeOp (£81 million).

In the **United States**, following the deleveraging process conducted at the start of the year, the activity focused on the reorganisation of the New York branch and expansion of its advisory and distribution activities with the objective of reinforcing its role as a platform for the distribution of products originated in other geographies.

In **Poland**, BES Investimento concentrated its efforts on cross-border M&A and capital market activities, where it made remarkable progress. The Bank further reinforced its credentials in the Polish market, where it participated as joint bookrunner of the privatisation of 11.9% of Tauron, an utility (PLN 1.3 billion), joint bookrunner of the privatisation of 12.1% of Banco BGZ (PLN 312 million) and sole bookrunner of the capital increase of Kredyt Inkaso (PLN 47 million). It also acted as joint lead manager of Mazovian Railways' first debt issue in euro (EUR 100 million) and provided advisory services to the Swedish Skanska group on the acquisition of PUDiZ, a construction firm. BES

Investimento maintained the 13th position in the Polish brokers' ranking, with a market share of 2%.

In **Africa**, BES Investimento pursued the efforts to reinforce its presence in some of the region's main markets, especially in Angola where it operates from an investment banking office created within BESA and is pending an authorisation to develop investment banking and brokerage activities, and Mozambique, where it also aims to develop investment banking activities.

Project Finance

Financing Sustainable Development

In 2011 BES Group financed 13 project finance operations, of which nine were renewable energy projects in three different countries.

In 2011 the Group committed approximately EUR 121 million to renewable energy projects, which represents 60% of the total amount committed to project finance. The Group's exposure to the renewable energy sector currently accounts for around 21% of its total project finance portfolio. Three of these projects were developed in Portugal, contributing to the national objective of producing energy from renewable sources.

Main renewable energy projects in 2011:

- Renova Energia S.A.'s projects: construction of 14 wind farms with 293.6 MW installed capacity;

- The small hydro power plants (SHPs) projects in Brazil of Hidrotérmica S.A., the holding of the Bolognesi group, which holds 22 SHPs and 13 thermal power plants. BESI issued guarantees in favour of BNDES for the financing of the BoaFé Energética S.A. and Autódromo Energética S.A. SHPs.

Assessment of Environmental and Social Risks in Project Finance

All the project finance operations in 2011 were subject to a social and environmental risk analysis prior to approval.

This risk analysis is supported by the ESI Sustainable Finance Toolkit, a software application for environmental and social risks assessment that permits to identify, manage, monitor and report the risks involved in the Group's various transactions and clients. The Toolkit screens these risks against the benchmarks provided the Equator Principles, permitting to identify areas for mitigation throughout the duration of the financing and development of the project. This assessment of the various categories of risk by project, client and country/sector may be carried out either by the commercial teams, or by social and environmental experts.

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 are being minimised in accordance with the established standards.

These external experts regularly monitor and report on the project and its compliance with the Equator Principles.

From the 13 projects assessed in 2011, 12 were classified as presenting low risk, and of these, eight were located in low income countries. One project, located in a high income OECD country, was classified as presenting medium risk. All the renewable energy projects financed were classified as of low environmental and social risk.

The project finance team has appointed certain members within it to (i) coordinate and implement continuous training sessions about the ESI Sustainable Finance Toolkit, (ii) take part in meetings and discussions concerning the Equator Principles Financial Initiative, (iii) support the other team members in the management of the Equator Principles portfolio, and (iv) disclose non financial information conveying the Group's commitment to best practices in environmental and social risk assessment.

The project finance team participates in the International Finance Corporation conferences and in the workshops organised by the United Nations Environment Program – Finance Initiative, with the objective of debating, learning about, implementing and spreading the best social and environmental risk management practices adopted or to be adopted by the financial sector.

In addition, BES Group provides training and advice to its project finance team about the implementation and compliance with the Equator Principles.

Breakdown of risk per sector

	Renewable Energy	Infrastructres	Transportations	Other (Energy, Real Estatel)
A – High risk				
B – Medium risk			1	
C – Low risk	9	2		1

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, 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 15.5 billion in December 2011, reflecting a year-on-year reduction of 8%.

The volumes under management reflect a strong overall contraction in activity, except in mutual funds, which grew by 4% in 2011, driven by a volume increase in Spain of more than 55% due to the incorporation of Gespastor, SGIIC, SA. However, this was not sufficient to offset the reduction in the other activities.

At the end of 2011 assets under management of the international operations totalled EUR 3 billion, of which more than EUR 2.3 billion in Spain, representing ca. 23% of the total volume under management. In Luxembourg and Brazil, assets under management fell by 14% and 31%, respectively, while Angola registered an increase of 11%. Late in 2011 an agreement was entered to sell the entire share capital of the subsidiary in the United Kingdom, ESAF - Alternative Asset Management Ltd, which has already been approved by this country's supervision authority.

Mutual Funds

Total assets under management reached EUR 4,633 million at the end of 2011. The year was marked by an increased effort to adjust the offer of mutual funds to market needs, involving the launch of new funds. Hence, following the launch in previous years of the 'Rendimento Fixo' line of special investment funds, another four funds in this line were launched in 2011: the ES Rendimento Fixo VI, VII, VIII and IX, and also the ES Liquidez fund, targeting short-term placements, which surpassed EUR 476 million in assets under management. Also, the launch in 2009 of the Benfica Star Fund was followed in 2011 by the launch of the Sporting Portugal Fund, which at the end of 2011 had more than EUR 13 million in assets under management. The ES Estratégia Acções fund was liquidated in December.

In **Luxembourg**, BES Group has several funds under management targeting clients with a wide range of risk profiles. At the end of 2011 the aggregate volume in these funds was EUR 610 million: (i) the ES Fund, which has 14 compartments (shares and bonds); (ii) the Global Active Allocation Fund, targeting individual clients and institutions; (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. 2011 completed the first year of management of the first Exchange Traded Fund (ETF) on an Iberian index, the ESAF NYSE Euronext Iberian ETF.

Real Estate Funds

Overall volume under management in real estate funds was EUR 1,203 million in December 2001, which represents a reduction of 12% compared to 2010. The two open-end funds - Gespatrimónio Rendimento and Espírito Santo Logística, totalled more than EUR 832 million, the latter having achieved the highest return from among all open-end real estate funds in the national market in 2011. BES Group currently manages 28 closed-end real-estate funds for private subscription, which target clients seeking to invest in real estate funds for a predetermined period of time.

Pension Funds

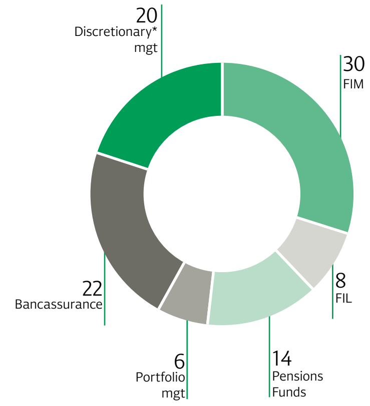
In Pension Funds, assets under management totalled EUR 2 155 million, representing a year-on-year drop of 19% that resulted from the agreement between the Government and the financial institutions under which the latter's liabilities for retirees and pensioners and corresponding pension fund assets were transferred to the general social security system. Volume under management in open-end pension funds slightly increased compared to 2010 (ca. +1%).

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 euro and foreign currency) totalled EUR 878 million at the end of 2011, having fallen by 50.8% year-on-year.

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.

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

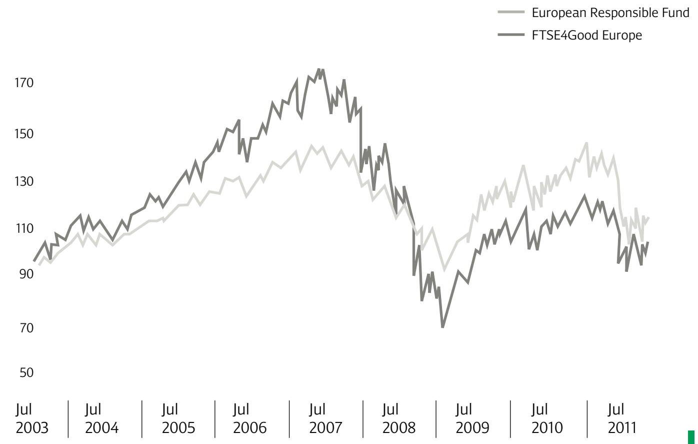
European Responsible Fund

The European Responsible Consumer Fund is an ethical fund created and managed by ESAF. The European Responsible Fund, developed in 2003, is sold by BES Group. It has EUR 2.8 million under management and represents 1.2% of the equity funds managed by ESAF.

The Fund invests in European equities and bonds issued by European States. Besides complying with other requirements of the demanding FTSE4Good 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 Index, and its investment strategy focuses on environmental, social and governance issues such as the production of waste, absenteeism, and the engagement and independence of management.

The fund has consistently shown a positive differentiation vis-à-vis the FTSE4GoodEurope index.

European Responsible Fund



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 143 responsible investment funds reached EUR 13 million in 2011, which represents a year-on-year increase of 26%.

Espírito Santo Infrastructure Fund (ESIF)

In 2011 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 2011 this fund represented 44% 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 2011 the fund invested ca. EUR 27.9 million in renewable energy projects, from a total committed capital in excess of EUR 53 million. An additional EUR 29.5 million are committed to renewable energy projects already identified, with disbursements scheduled for dates in the future.

Main investments in renewable energy projects made by the fund in 2011:

- Investment by Globalwatt in a 7.2 MW solar photovoltaic park in Madeira, which started to be installed in June and became operational in October;
- Investment in ESUS, following the licensing process to install a 45MW wind farm in Galicia, Spain. The investment started in 2010 and should continue until mid-2013;
- Entry into operation of the São Macário wind farm, held by Windway;
- Investment in the full replacement of the equipment of the Lagoa Funda wind farm (held by Iberwind) to increase installed capacity by 20%; this is the first such full replacement operation to take place in Portugal.

ESIF's main invested companies in the renewable energy sector:

- Iberwind, the largest company by Portuguese wind assets, with installed capacity of 684MW;
- Windway, which holds a 23MW wind farm; ESIF has a 40% stake in this company;
- Globalwatt, a company that invests in solar photovoltaic parks, has 8.5MW of installed capacity; ESIF has a 50% stake in this company;
- ESUS was set up to build and operate a 45MW wind farm awarded by public tender by the regional government of Galicia; ESIF has a 45% stake in this company.

Climate Change

In order to use financial investment as a means to combat climate change, the Group maintained its EUR 9.5 million investment in the Luso Carbon Fund (LCF) and EUR 2,1 milion investment in the New Energy Fund (NEF). The LCF invests in renewable energy, energy efficiency and waste treatment projects within the scope of the Kyoto Protocol, while the NEF invests in renewable energy companies and projects.

3.5 Outlook for BES Group. Main risks and uncertainties

The global outlook for 2012 is marked by prospects of relatively low economic growth or even recession in certain regions, namely the Eurozone, where the adverse impacts of the crisis on investment and consumption financing, together with general fiscal austerity, lead to expectations of cooling down or contraction of economic activity. Unemployment should remain high in Europe and the United States, whereas inflation is expected to keep a downward trend. In this environment, adoption of more expansionary monetary policies in most economies, including the main emerging areas, are expected. Naturally, the main focus will remain on the Euro Zone, impacted by a serious financial crisis and a likely recession. Our outlook is based on the assumption that not only progress will be made towards greater fiscal integration and coordination, but above all that the ECB will play an even more active role in the financial stabilisation of the Euro Zone.

Main factors that will or may condition the activity and results of BES Group in 2012:

- the solutions presented by European political leaders for the overall Euro Zone countries and the markets' perception as to whether these solutions are the most adequate to tackle the current sovereign financial crisis;

- the Portuguese Government's level of success in achieving the goals and commitments agreed with the EC/ECB/IMF under the Economic and Financial Policy Memorandum, and whether Portugal's credibility within the international community is consequently restored;

- the continuation of the Portuguese banking sector's difficulties to acess financial markets;

- the maintenance of credit risk at current levels and possible increase as a result of the economic recession and rising unemployment;

- compliance with the new Core Tier I ratio requirement – 10% in December 2012;

- achievement of the deleveraging and funding plans, translating into a loan to deposits ratio and a stable funding ratio of 120% and 100%, respectively, in December 2014, as required by the Economic and Financial Policy Memorandum of Understanding.

Taking into account the referred conditioning factors, BES Group's activity in 2012 should focus on attracting deposits, increasing selectivity in credit granting (although continuing to support the more dynamic sectors of the economy, namely the exporting SMEs), reinforcing capital ratios, and seizing the growth opportunities afforded by the Group's presence in emerging markets.

Capturing deposits

The objective set for the loan to deposits ratio requires BES Group to adopt a strategy leading to an increase in customer funds in the form of deposits. To this end, the implementation of commercial strategies promoting deposit will be one of the priorities in 2012. The Group will nevertheless maintain a sufficiently diversified offer to meet the saving profile and requirements of its individual and corporate clients.

Credit granting and deleveraging

The commercial policy for the lending activity will be highly selective, emphasising support to the more dynamic sectors of the Portuguese economy and to the small and medium-sized exporting companies.

Notwithstanding the commercial strategy implemented by BES Group, the expected fall in domestic demand leaves no room for doubting that the recession of the Portuguese economy can only be attenuated through the exporting sector, which the Group has always supported and will continue to support.

As a consequence of the forecast reduction in investment, consumption and public expenditure, credit to the economy will tend to decrease, affecting both individuals and businesses.

The further reinforcement of the financial balance will imply, in addition to improving the loan to deposits ratio, a scheduled reduction of other assets (non-current assets held for sale and securities), in order to lessen the impact on liquidity of medium and long term liabilities coming to maturity, and consequent need to obtain financing from the ECB.

Reinforcement of Capital and Liquidity Ratios

In order to reach the objective of Core Tier I ratio of 10% in December 2012, the Group will resort to market operations. At the same time, it will take the necessary measures to improve its current risk mitigation indicators and reduce risk assets, consequently saving on capital requirements. Moreover, the Group will pursue a strict and prudent financial management, seeking to diversify funding sources and promoting solutions that confer greater stability to the financial resources required for the activity, by seizing the scarce windows of opportunity that may be afforded by the market.

While access to the wholesale financial market remains restricted for Portuguese banks and money market remains inoperative, despite the current level of haircuts on collaterals, access to funding from the ECB will continue to be a crucial support to activity .

International Area Growth

The international expansion strategy adopted has proven to be a solid pillar permitting to lessen the impacts of the domestic recession. The Group's presence in Latin America, Africa and Asia, through its operational units or correspondent banks, will be further developed and reinforced during 2012.

We thus believe that the international area will continue to benefit from the expressive economic expansion in some of the countries where BES Group operates, and maintain in 2012 a decisive contribution to the Group's performance.

4. Financial Management and Capital Markets

Liquidity Management and Funding

Over the years BES has maintained a very conservative approach to liquidity risk management, and its structure is designed to ensure that liquidity management complies with all regulatory rules in force in every geography where it operates, and that all its responsibilities are met, whether in normal market conditions or under stress conditions.

Hence one of the main components of BES's liquidity risk management is its funding policy, which uses the various instruments available in the financial markets and encompasses various funding sources, including customer funds, ordinary and preferred shareholder's equity and medium/long-term funding instruments.

BES Group separates liquidity risk management in three major groups:

• Short-term liquidity;

• Structural liquidity; and

• Contingency liquidity.

BES monitors its short-term liquidity levels through daily mismatch reports prepared in accordance with pre-established guidelines and the potential impacts on the Bank of the internally defined warning signals, namely risk of contagion (due to market tension) or repercussions of an economic crisis. In addition, following the sovereign debt crisis in the Eurozone peripheral countries, the Bank of Portugal requested that financial institutions reinforce the information provided on their short-term liquidity position. Accordingly, the treasury position and the evolution of deposits is reported daily, being also reported on a weekly basis the liquidity position.

Still concerning short-term liquidity management, following the changes in the UK liquidity legislation in 2009, in August 2011 the Financial Services Authority (FSA) approved BES's application for a Whole Firm Liquidity Modification (WFLM), which allowed BES to continue to operate in London without being required to create additional liquidity buffers. The FSA approval reflects its confidence on BES's liquidity management procedures.

With regard to structural liquidity, BES prepares a monthly liquidity report (see chapter 5 – Liquidity Risk) that takes into account not only the effective maturity but also the behavioural maturity of the various products, which permits to determine the structural mismatches for each time bucket. Based on this chart, and taking into account the budget targets established, BES prepares an annual activity funding plan. This plan, which is regularly revised, privileges as far as possible medium/long-term funding instruments over short-term instruments.

For contingency liquidity, BES has defined a set of measures that, when triggered, permit to address and/or lessen the effects of a liquidity crisis.

2011 was marked by the deterioration of the sovereign debt crisis in the peripheral Eurozone economies, the slowdown of the global economy, and successive cuts of the sovereign ratings. The ratings on the Portuguese Republic were downgraded during the year from A1 to Ba2 by Moody's (7 notches), from A+ to BB+ by Fitch (6 notches), from A- to BBB- by S&P (3 notches) and from AL to BBB by DBRS (2 notches). Both Moody's and Fitch placed the rating below investment grade, with S&P following suit at the beginning of 2012. The liquidity available in the financial markets for financial institutions was increasingly scarce, with the international markets becoming more and more inaccessible and the interbank money market being virtually inoperative.

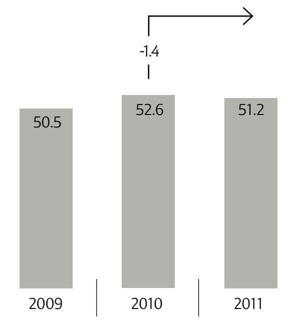
In this context, BES resorted in permanence to a set of contingency measures that allowed it to finance its activity during the year and thus overcome the inaccessibility to international markets. These measures may be divided into three main groups:

- Continued deleverage of the balance sheet, initiated in mid-2010.

This involved the sale of positions in the securities portfolio totalling EUR 1.7 billion and the sale of international loans totalling EUR 2 billion, which reduced the loan book by 2.7% in 2011.

Loan book evolution in 2011

(eur million)

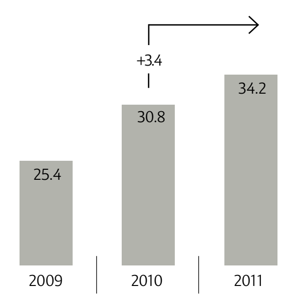


- Increase of the customer deposits base, reinforcing the strategic focus on keeping deposits as the main funding source.

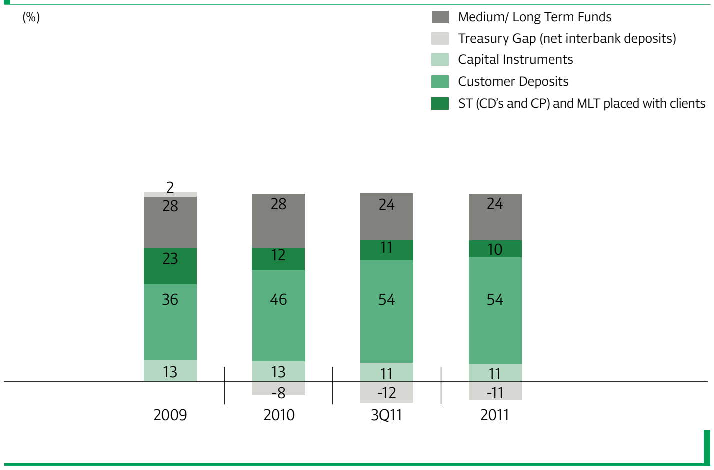
Accordingly, customer deposits increased by EUR 3.4 billion in 2011, with their weight in BES's funding structure rising from 36% in 2009 to 54% in 2011 (+18 p.p.).

Customer deposits evolution in 2011

(eur million)



Funding Structure

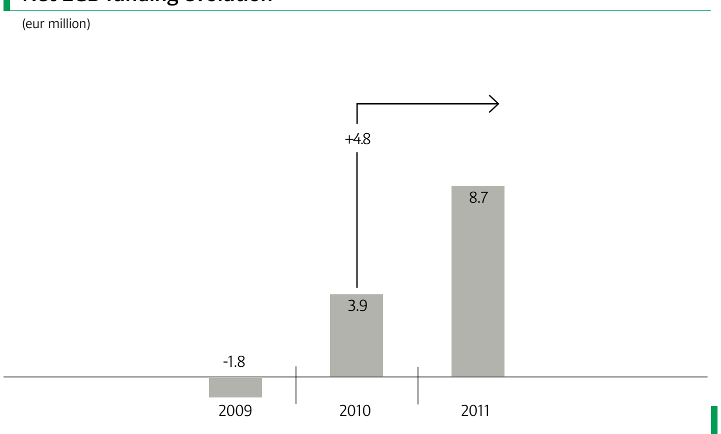


The increase in customer deposits in part offset the reduction in wholesale funding lines, which as a percentage of the Bank's overall funding structure dropped by 13 p.p., from 23% in 2009 to 10% in 2011.

Despite the climate of instability, the Bank has looked for opportunities to obtain funding in new markets, and in September 2011 signed a USD 300 million credit facility agreement with the maturity of 3 years with China Development Bank Corporation.

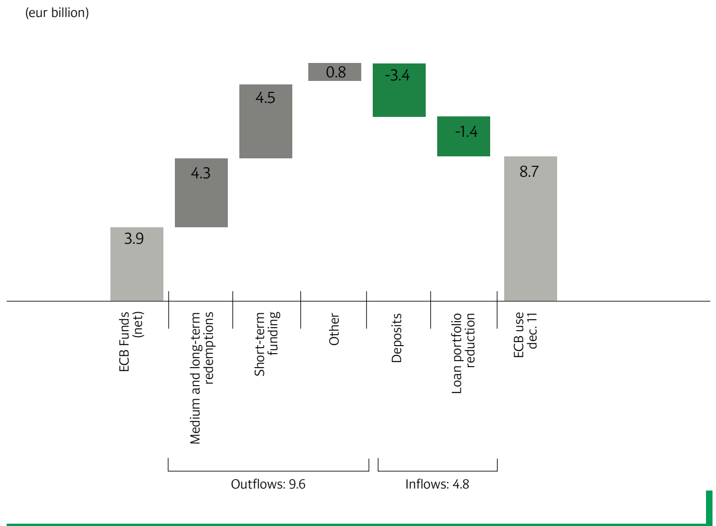
- Reinforcement of assets eligible for rediscount with the ECB in order to guarantee access to its main longer-term refinancing operations, which have been key to overcome the inaccessibility to the short and medium term markets. In December 2011 the Group's net borrowing position at the ECB was ca. EUR 8.7 billion (of which EUR 5 billion were taken under the ECB's three-year LTRO), having increased by EUR 4.8 billion year-on-year.

Net ECB funding evolution



The increase in borrowings from the ECB mainly resulted from the fact that the reduction in short and medium/long term wholesale funding lines through reimbursements totalling EUR 9.6 billion was not fully compensated by the increase of deposits and the reduction of the credit portfolio, which totalled EUR 4.8 billion.

Evolution of net borrowings from the ECB

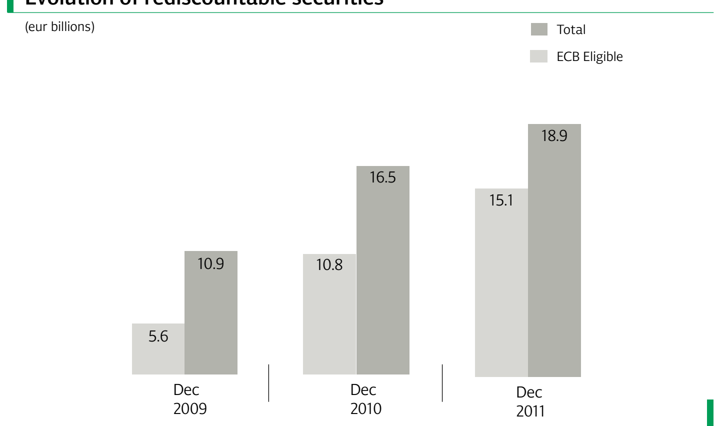


Main operations carried out by the Bank in 2011 to reinforce collaterals:

- Covered bond issue amounting to EUR 1.250 million with maturity of seven years (January);
- Covered bond issue amounting to EUR 600 million with maturity of six years (May);
- Issue of bonds guaranteed by the Portuguese Republic amounting to EUR 1.25 billion with maturity of three years (July); and
- Issue of bonds guaranteed by the Portuguese Republic amounting to EUR 1 billion with maturity of three years (December).

These operations increased the amount of assets eligible for rediscount operations with the ECB by EUR 4.3 billion, to EUR 15.1 billion.

Evolution of rediscountable securities

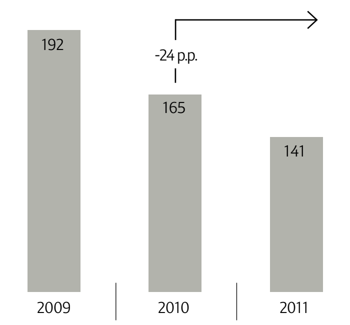


The total portfolio of repoable securities reached EUR 18.9 billion at the end of December. This total includes exposure to Portuguese sovereign debt of EUR 2.9 billion (of which 76%, or EUR 2.2 billion with a maturity of less than one year). As regards exposures to other peripheral countries' sovereign debt, BES had only EUR 4 million of Spanish public debt and no exposure to Italian, Irish or Greek public debt.

The execution of the contingency measures permitted to refinance all the debt maturing before the end of the year, including the EUR 4.3 billion medium and long-term debt reimbursed during the year, and to improve the loan to deposits ratio by 24 p.p., to 141% at the end of the year.

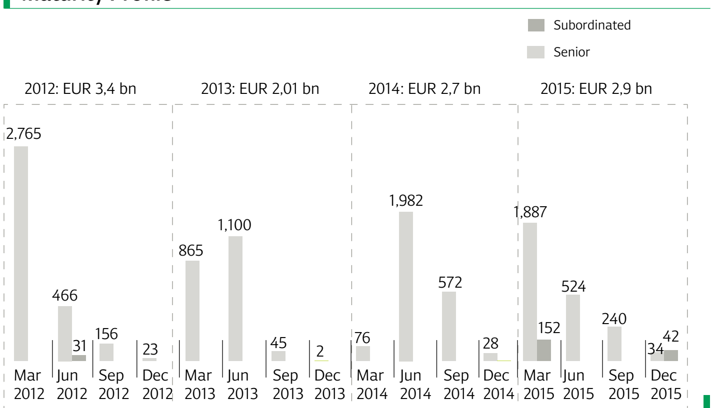
Loan to deposits ratio evolution

(%)



In 2012 BES has issued bonds guaranteed by the Portuguese Republic amounting to EUR 2.5 billion: EUR 1 billion 3-year Floating Rate Notes, in January, and EUR 1.5 billion 3-year Floating Rate Notes, in February. These two issues increased the amount of assets eligible for rediscount operations with the ECB by EUR 2.5 billion, which is nearly the entire amount of the medium and long term issues maturing in the first quarter of 2012.

Maturity Profile



The further implementation of these measures in 2012 will take into account the following decisions taken by the ECB at its meeting of December 2011:

- Reduction of the key benchmark rate to 1%;
- Reduction of the reserve requirement ratio for European banks from 2% to 1%;
- Second unlimited three-year liquidity facility (instead of the previous maximum term of 13 months) on 29 February 2012 (the first LTRO took place on 21 December 2011);
- Adoption of looser eligibility criteria for collaterals accepted in discount operations.

The ECB decisions aim to facilitate the Eurozone banking sector's access to liquidity and restore the normal course of the interbank money market.

Rating assigned to Banco Espírito Santo
(at December 31st, 2011)

Agency	Long term	Short term	Outlook
Standard & Poor's	BB	B	Negative
Moody's	Ba2	NP	Negative
DBRS	BBB	R-2 (high)	Negative

Standard & Poor's: On March 28th, following the downgrade of the long term rating of the Portuguese Republic by two notches, from A- to BBB, S&P downgraded the long and short term ratings of Banco Espírito Santo to BBB/A-3 from A-/A-2. On March 31st, after a new downgrade of the long term rating of the Portuguese Republic from BBB to BBB-, S&P downgraded BES's rating from BBB to BBB-. And again in December, the agency revised BES's long-term rating to BB and its short-term rating to B, with negative outlook.

Moody's: On April 6th, following the downgrade of the Portuguese Republic's rating from A3 to Baa1, Moody's downgraded the ratings of Portuguese banks, including BES's, which were lowered from A2 to Baa2 (long term debt) and from P-1 to P-2 (short-term debt). On July 15th, after a new downward revision of the Sovereign rating, from Baa1 to Ba2, the agency cut BES's long-term rating from Baa2 to Ba1. And on October 7th, again following a new downgrade of the Portuguese banks' ratings, Moody's downgraded BES's long term rating from Ba1 to Ba2.

DBRS: on April 19th DBRS initiated its coverage on BES, assigning it a long-term rating of A (low) and a short-term rating of R-1 (low). On May 25th, following the downgrade of the long-term rating of the Portuguese Republic from A (low) to BBB (high), DBRS downgraded the long-term rating of BES to the same level of the sovereign rating, and also downgraded BES's short-term rating to R-2 (high), with negative outlook. On October 20th, after a new downgrade of the sovereign long term rating, DBRS downgraded the long-term rating on BES from BBB (high) to BBB, with negative outlook, maintaining the short-term rating unchanged.

5. Risk Management

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 and guaranteeing that the Group possesses the necessary skills and resources to meet the established objectives.

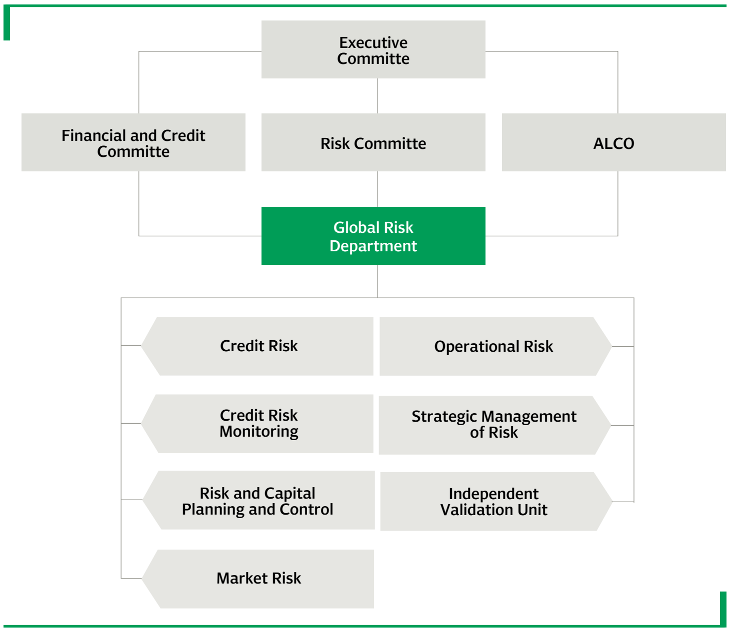
BES Group has several specialised committees that play a relevant role in the area of risk management and control, in line with the decisions taken by the Executive Committee:

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, 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**, for top corporates (companies with individual or consolidated turnover above EUR 50 million), credit and financial institutions, institutional clients, local and regional administration bodies, and project finance, object finance, commodity finance e 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, 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 clients with significant monthly changes and monitors client impairments when justified by their size or economic and financial situation;

• To keep abreast of the supervision authorities and external auditors' activities concerning the supervision and audit of the credit portfolio;

• To assist the commercial areas in 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 assist in BES Group's internationalisation process, namely through the definition of risk and impairment monitoring policies and procedures.

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

• **Capital and solvency requirements:** 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 ALCO Committee.

The **Operational Risk** area has as main responsibilities to:

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

• define the operational risk management model ensuring that the operational risk identification, assessment and monitoring processes within the various units of BES and entities of BES Group are standardised, systematised, regularly performed and duly documented;

• identify the main sources of risk, through self-assessment exercises, meetings with representatives from Operational Risk, critical analyses of reported events, monitoring of key risk indicators and other available information, namely audits performed or complaints;

• establish and monitor the implementation of risk mitigation actions and measures, together with the process sponsors;

• report the relevant information to the appropriate levels in the hierarchy.

The area of **Strategic Management of Risk** deals with the methodologies, evaluation models and risk policies applying to all categories of risk. 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[2] , LGD[3] and EAD[4] 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 Strategic Management of Risk area is organised in such a way as to cover the two macro-functions identified above, taking into account the underlying nature of the various risks and portfolios, and comprises the following sub-areas:

• risk models for corporate clients;

• risk models for individual clients;

• risk models for decision taking on pending cases; this includes the internally developed pay/no pay models;

• ICAAP[5] and Stress Tests – intervention in the annual ICAAP exercise (Basel II Pillar) and in the Stress Test exercises which the Bank performed with greater frequency in 2011, thus meeting the regulatory requirements and the need arising from the internal management of the risks to which the Group is exposed under adverse scenarios.

The **Independent Validation Unit** makes sure that there is full independence from the other GRD areas (including from the area 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[6]), 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.

[2]PD: Probability of Default
[3]LGD: Loss Given Default
[4]EAD: Exposure at Default
[5]Internal Capital Adequacy Assessment Process
[6]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.

BES Group believes it has in place risk management tools allowing it to apply the best international practices in this area, and having developed a business culture of great sensitivity to risk that is well rooted in the entire organisation, such practices were 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 usertests 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/ Portfolios	• ES Plc • SFE • BES NY • BES Cayman	• Leasing (Corp) • BAC	• BES Espanha • ES Bank	• BES Vénetie • BES Oriente	• Factoring

The roll-out process is under way. BES's New York Branch, Cayman Branch, Madeira off-shore branch and Espírito Santo Plc have already submitted their applications which are now awaiting the Bank of Portugal's authorisation.

Final acceptance of the applications 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 requires compliance with certain conditions identified by the Bank of Portugal. Regular progress reports on compliance with these conditions are sent to the Bank of Portugal. The last report on operational risk was sent in 2011, and the last one on credit risk should be sent in the first quarter of 2012.

• 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 going concern perspective – 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 the ICAAP exercise conducted in 2011, with reference to December 31st, 2010, BES Group opted to focus only on the settlement perspective. This approach has been taken, in view of the new regulatory capital requirements (minimum Core Tier I ratio of 9% in 2011 and 10% in 2012) and consequent changes in the business model, which namely entailed the deleveraging process currently underway, the going concern perspective, which assumes that the previous model is maintained, is not applicable at present.

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 stress scenario and a scenario reflecting further deterioration in the macroeconomic environment.

2011 was marked by the aggravation of the adverse economic environment and high volatility in the capital markets already observed in the previous years. The resulting increased risks implied an increase in economic capital requirements.

In line with its business strategy, the main risks to which BES Group is subject are credit risk and the banking book's market risk. The credit risk implicit in the banking relations with the Clients derives from BES Group's core business, mainly originating in the corporate segments, with a significant contribution from the international area. The banking book's market risk mainly derives from: (i) the stakes held in Portugal Telecom and EDP Energias de Portugal, and (ii) the credit spread risk of obligations, which mainly arises from the commercial relations with the clients and the need to maintain liquid assets on the balance sheet. The risks associated to the pension fund, which result from the Group's legal obligations towards its employees, are also relevant. In 2010 the economic capital requirements increased by ca. 11% relative to 2009 (after diversification effects), essentially through an increase in requirements for credit risk and for the banking book's interest rate risk. Economic capital distribution by type of risk did not change much compared to the previous year, when the banking book's credit and market risks were already the more materially relevant risks. Finally, it should be noted that the banking book's market risk decreased due to the fact that the ICAAP exercise for December 31st, 2010 already took into account the impact of the sale of the stake in Banco Bradesco, which reduced the equity holdings risk.

The results obtained through the ICAAP exercise conducted with respect to December 31st, 2010, which were delivered to the Bank of Portugal in September 2011, concluded that BES's own funds were sufficient to cover the risks incurred, from either the regulatory or the economic standpoint.

5.3 Basel III recommendations

At the end of the third quarter of 2010, the Basel Committee on Banking Supervision took several decisions regarding the functioning of the global financial system, that have resulted in a set of recommendations, named Basel III. Banks will have a transition period (from January 1st, 2013 to January 1st, 2019) to comply with the approved rules, aimed at strengthening financial institutions and preventing new financial crises in the future.

Basel III rules have established the following regulatory framework to be gradually implemented until January, 1st, 2019:

- minimum Core Tier 1 of 7%, of which 4.5% minimum common equity and 2.5% capital conservation buffer;

- minimum Tier 1 of 8.5%, of which 6.0% minimum and 2.5% capital conservation buffer;

- total solvency ratio of 10.5%;

- introduction of a countercyclical buffer, ranging from 0% to 2.5% of common equity, under conditions to be defined by the national regulatory authorities;

- transitory period defined for the absorption of deductions to capital not eligible under BIS III and for the new deductions to capital;

- definition of the leverage and liquidity ratios (short and long term) in certain conditions, to be defined.

BES Group closely monitors developments in the future regulatory framework, as well as all the efforts carried out to define the final rules for new capital ratios.

5.4 Special Inspections Programme (SIP)

The Programme of Economic and Financial Assistance agreed in May 2011 between the Portuguese authorities and the European Commission, European Central Bank and International Monetary Fund established a Special Inspections' Programme (SIP) covering the eight largest Portuguese banking groups.

The SIP had the objective of validating, as of June 30th, 2011, the credit risk data used in the valuation of these groups' financial strength, through an independent valuation of their loan portfolios, and the adequacy of their risk management policies and procedures, as well as confirming the calculation of their capital requirements for credit risk.

At BES Group, this exercise focused on the valuation of credits amounting to EUR 44.1 billion, covering 85% of the Group's total credit portfolio. This valuation determined the need to reinforce the value of individual impairments accounted in the Group's consolidated financial statements by EUR 125 million. This amount represented 0.3% of the analysed global credit portfolio and 8.4% of the value of impairments accounted in relation to that portfolio. It is noted that, as of September 2011, BES Group had constituted additional impairments for the aforementioned credits amounting to EUR 21.0 million.

In the context of the SIP it was also concluded that it was necessary to adjust the value of the risk weighted assets, leading to an increase of 2.2% of the total amount calculated for that date. However, the regulatory changes applicable after the reference date of the SIP, in particular the changes in the legislation (CRD III), implemented by the end of 2011, resulted in a reduction in value of Risk Weighted Assets equivalent to 1.2.% based on data as at June 30th, 2011. The effect of the changes registered after June 30th, 2011 has not been taken into consideration in the estimated impact of SIP on the Core Tier 1 ratio.

The combined impact of the SIP[7] results on the solvency evaluation of BES Group, as of June 30th, 2011, would result in a slight decrease in the Core Tier I ratio from 9.2% to 8.9%, still remaining above the 8% minimum level required on that date.

5.5 Solvency

BES Group solvency ratios are calculated under the Basel II regulations. As referred, from the first quarter of 2009 onwards 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.

In the second quarter of 2011, in the context of the Financial Assistance Programme to Portugal that determined the reinforcement of capital levels within the Portuguese banking system, the Bank of Portugal issued Notice 3/2011 of 10 May establishing minimum levels for the Core Tier I ratio on a consolidated basis of no less than 9% by December 31st, 2011 and 10% by December 31st, 2012.

Capital Requirements under the EBA Methodology

In light of the increase in systemic risk triggered by the sovereign debt crisis in the euro area, it was decided that banking groups subject to the European Banking Authority's (EBA) stress test exercise are required to strengthen their capital positions in order to reach a Core Tier 1 capital ratio of 9% by June 30th, 2012, following a prudent assessment of their sovereign debt exposures at market prices as at September 30th, 2011.

The total amount of capital identified as needed for BES Group under the EBA methodology, as of September 30th, 2011, was EUR 810 million, with EUR 121 million resulting from the evaluation at market prices of exposure to sovereign debt (sovereign buffer).

Regulatory Capital

The information on regulatory capital is provided in chapter 6 – Financial Analysis, point 6.3., of this report.

Risk Weighted Assets

As of December 31st, 2011, Risk Weighted Assets totalled EUR 65,385 million, of which EUR 59,705 million (91% of the total) corresponded to credit and counterparty risk, EUR 1,742 million to market risk and EUR 3,938 million to operational risk.

Credit and Counterparty Risk

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

The EUR 905 million reduction in credit and counterparty risk-weighted

[7]SIP: Special On-site Inspections Program

assets in 2011 despite the adverse economic and financial context in which activity was developed during the year, translates the strict monitoring of risk and the deleveraging process undertaken by BES Group.

Risk Weighted Assets (per risk category)

	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	43	1%	1,374	65%	1,418	23%
Institutions	3,465	35%	348	30%	3,813	35%
Corporate	34,713	73%	9,717	74%	44,431	74%
Retail	4,176	25%	333	61%	4,509	27%
Other	5,266	89%	268	89%	5,535	89%
Total	**47,664**	**57%**	**12,041**	**70%**	**59,705**	**59%**

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

In terms of geographical distribution, the international activity contributed with EUR 12,041 million, or 20%, to total Risk Weighted Assets, while the domestic activity contributed with EUR 47,664 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, 2011 the capital requirements for risk weighted assets amounted to EUR 1,742 million, with the main contributors being Interest Rate/Debt Instruments Risk (71% of the total) and Foreign Exchange Risk (19%).

Trading Book Risk Weighted Assets

(Eur million)

		Dec.10	Dec.11	Change
Debt instruments	Specific risk	831	564	-267
	General risk	1,005	643	-362
	CIE *	37	23	-14
Equity instruments	Specific risk	96	129	32
	General risk	155	55	-100
	CIE *	0	0	0
Commodity risk		102	2	-100
Fx risk		1,992	325	-1,667
Total		**4,219**	**1,742**	**-2,478**

* Collective investment entities - Investment funds

The reduction in requirements in 2011 translates an overall decrease in the various categories of risk, and particularly in Foreign Exchange Risk.

The decline in the Equity Instruments Risk was in part absorbed by the increase in the Specific Risk of capital Instruments resulting from a change in the legislation that led to an increase in the risk weight for Specific Risk from 4% to 8%.

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 2011 risk-weighted assets decreased by EUR 35 million as a result of the lower contribution of Trading and sales, which was not offset by the increase in Commercial banking (middle market and large corporates).

Solvency

(Eur million)

	2010		2011	
	Capital Charge	RWA	Capital Charge	RWA
BES Group	**318**	**3,973**	**315**	**3,938**
Corporate Finance	6	70	8	96
Trading and Sales	91	1,143	63	789
Retail Brokerage	2	22	2	26
Commercial Banking	146	1,828	173	2,158
Retail Banking	62	777	59	740
Payment and Settlement	0	0	0	0
Agency services	0	4	0	4
Asset Management	10	129	10	125

5.6 Risk Management within BES Group

5.6.1 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 are 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 intervenients in the credit process;

- the independence of the process of formalisation/execution of operations vis-à-vis the origination structure.

As a result of the vast set of initiatives taken over the previous years, namely within the scope of the global project of revising the credit-decision process in the various commercial segments, combined with the near full coverage of credit exposures by internal rating classification, the credit 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. Portfolio ceilings are used as a management tool that is applied differently for individual or corporate client portfolios:

- Mortgage credit, consumer loans and credit cards – portfolio ceilings on origination strongly restrict the approval of operations with the lowest scoring levels;

- Corporate portfolios – ceilings are used to monitor the evolution of the risk profile of the various credit portfolios. The risk profile is assessed based on exposure net of collaterals.

Compliance with the established ceilings is monitored on a regular basis. The resulting information is distributed to the commercial areas and the Risk Committee.

BES Group has in place a strict lending policy that mitigates risk at the various stages of the credit process - origination, monitoring and recovery.

Origination

- Restrictive limits on new credit
- Loan guarantees required
- Price adjusted to risk
- High coverage of rating exposures
- Automatic availability of supporting information to credit decisions, namely in the front office

Monitoring

- Senior management strongly involved in monitoring process
- Credit risk information automatically made available to the commercial areas
- Credit follow-up actions (prior to default)
- Guarantee management processes and controls.

Recovery

- Early recovery steps
- Monitoring of borrowers and assets received as guarantee
- Credit recovery process adjusted to business sector, recovery, and divestment areas.
- credit risk included within the criteria of the objectives and incentive systems ("SOI") for the commercial areas)

A.1. 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 2011 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.

• 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, commodity finance, object finance, acquisition finance and construction finance.

	Segment Criteria	Model Type	Description
Expert Judgement ↑	Sector, Dimension, Product › Financial institutions › Municipalities › Institutional clients › Local and regional admin. › Large corporates [Sales > €50 million] › Real Estate (Investment/ Promotion) › Acquisition Finance › Project Finance › Object Finance › Commodity Finance	Template	Ratings attributed by teams of analysts, using sector- specific models (templates) as well as financial and qualitative information.
	Medium sized companies: › Sales [€1.25 million to €50 million]	Semi-automatic	Rating models based on financial and qualitative information validated by analysts.
↓ Statistical	Small businesses: › Sales up to €1.25 million Start-ups and entrepeneurs	Automatic	Rating model based on financial, qualitative and behavioural information. Rating model based on qualitative and behavioural information.

For **Large Companies, Financial Institutions, Institutional Clients, Local** and **Regional Administration**, and **Specialised Finance** (i.e. project finance, object finance, commodity finance and acquisition finance) credit ratings are assigned by a rating desk. The Rating Desk, composed of specialised analysts, organised into multi-sectoral teams, 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 rating 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), BES Group uses statistical rating models, which combine economic and financial data with behavioural and qualitative data.

The disclosure of risk ratings also requires 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 adopted 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 IPs (independent professionals).

Finally, in the **Real Estate Sector** (property developers, in particular small and medium-sized firms), given its characteristics, ratings are assigned centrally by a specialised team, using specific models that combine quantitative and technical variables (property valuations conducted by specialised units) with qualitative variables. This team is also responsible for making the risk analyses included in specialised credit proposals (Construction Finance).

• 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. These models' predictive capacity is regularly monitored.

<table>
<tr><th colspan="2"></th><th colspan="2">Models</th></tr>
<tr><th colspan="2">Portfolios</th><th>Scoring at origination</th><th>Behavioural Scoring</th></tr>
<tr><td colspan="2">Mortgages</td><td>Model for new and current clients (less than 6 months history)</td><td rowspan="3">Model for current clients with more than 6 month history</td></tr>
<tr><td colspan="2">Consumer loans</td><td>Model for new and current clients (less than 6 months history)</td></tr>
<tr><td colspan="2">Loan Accounts</td><td>Model for clients (account history of more than 6 months)</td></tr>
<tr><td colspan="2">Cards</td><td>Model for new and current clients (less than 6 months history)</td><td>Model for current clients with more than 12 month history</td></tr>
<tr><td rowspan="2">Current Accounts</td><td>With limit</td><td rowspan="2">Limit scoring at origination: model for new clients (less than 6 months history), model for new accounts of current clients and model for introduction of limits in accounts with more than 6 months history</td><td rowspan="2">Model applied to operations with limit and with more than 6 month history</td></tr>
<tr><td>Without limit</td></tr>
</table>

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.

• 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 reduced 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 2011 BES Group updated the LGD parameters applicable to the consumer loans portfolio.

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 and 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:

- Monitoring of clients with warning signals (CCRA);
- Risk Monitoring Group (RMG);
- Global analysis of the credit portfolio risk profile;
- Monitoring of clients with warning signals (CCRA).

Clients with warning signals are monitored by the Committee for Credit Risk Analysis (CCRA), which for the purpose holds meetings throughout the year with representatives from all the commercial structures. These meetings' conclusions are periodically reported to the Risk Committee and the Executive Committee.

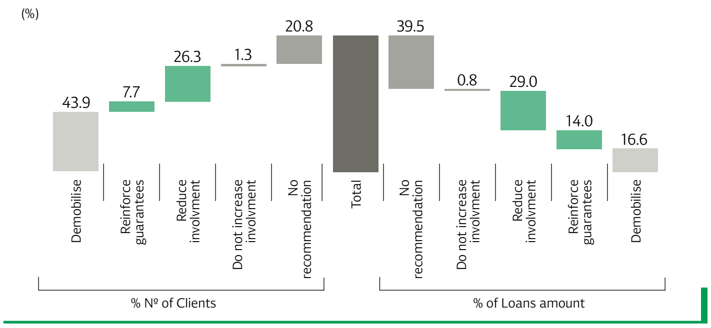
The persistence of a difficult macroeconomic environment in 2011 emphasised the importance of risk monitoring and control actions. During the year the CCRA analysed and assessed 9,544 clients with an overall exposure of around EUR 15,166 million, of which 1,778 (ca. 19%) were reported for the first time in 2011.

On the basis of this assessment and taking into account the specific characteristics of each case, the Committee issued recommendations concerning 79% of these clients (a total of 7,563 clients, of which 15% were reported for the first time), whose overall exposure corresponded to approximately 60.4% of the total exposure under analysis.

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

- the percentage of defensive recommendations (Demobilise, Reinforce guarantees and/or Reduce involvement) is quite expressive both in terms of number of clients (78% of the clients analysed) and in terms of their credit exposure (slightly above 59.6%);
- no recommendations were issued for 20.8% of the clients analysed (corresponding to 39.5% of the exposures analysed), which permits to conclude that BES Group's credit risk controled / 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.

2011 CCRA recommendations (distribution profile of the analysed portfolio)



Mirroring the growing difficulties experienced by some industry sectors, approximately 63% of all recommendations issued in 2011 concerned clients with business activities in three sectors only: property development, services, and civil construction.

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.

• Risk Monitoring Group (RMG)

The Risk Monitoring Group (RMG) was created in 2011 with the objective of further reinforcing the credit risk analysis and control performed within the CCRA.

Every month the clients analysed by the RMG are classified according to pre-established risk criteria into three risk categories – Prevention, Watchlist and Recovery -, and a report is produced identifying the causes for the risk deterioration of clients included under each category, and proposing the steps to be taken in each case, such as:

- issuance of recommendations to transfer Clients in Prevention and Watchlist to the Corporate Clients Monitoring Department;

- validation of "Recovery Plans" for clients in Watchlist (applicable to clients with liabilities below EUR 0.5 million, providing they were selected by the Credit Recovery Department);

- monitoring of clients in Recovery, with recovery plans under way in the corporate clients commercial departments, Corporate Clients Monitoring Department, or at the proposal of the Credit Recovery Department.

• 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, 2011 the loan portfolio had decreased by 2.7% compared to the end of 2010. Although this reduction occurred in all credit segments, mortgage loans registered the smaller decrease, of 0.8% only. Corporate loans declined by 3.1% due to the sale of international credits in the context of the deleveraging programme. Excluding this effect, corporate loans would have increased by 2.0%.

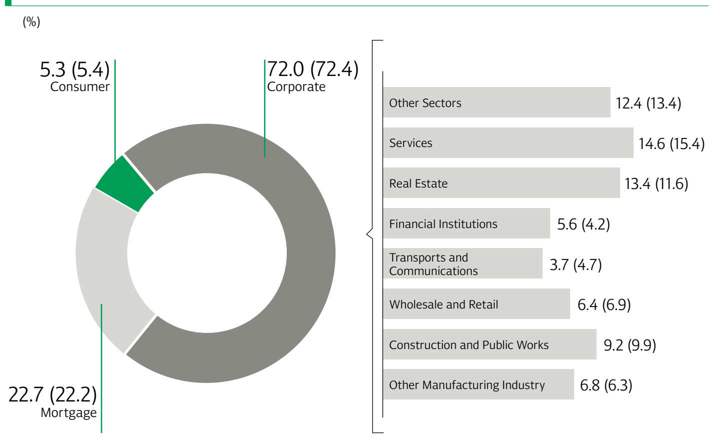
Loan Portfolio Breakdown

(Eur million)

	Dec.10	Dec.11	Change (%)
Total gross loan	**52,606**	**51,211**	**(2.7)**
Mortgage	11,701	11,610	(0.8)
Individuals (other)	2,822	2,716	(3.8)
Corporate	38,083	36,885	(3.1)

The sectoral breakdown of the credit portfolio shows BES Group's continued support of the business community, and also that concentration levels by industry sector remained within prudent limits.

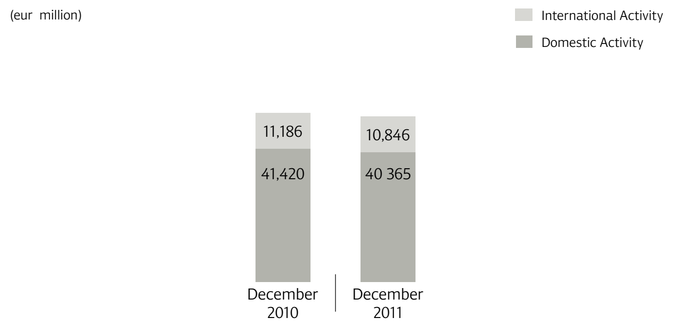
Credit Portfolio Breakdown



( ) 2010

In terms of geographical breakdown, international activities account for 21% of the loan portfolio, representing a year-on-year decrease of 3.0%. This contraction was caused by the sale of international loans (ca. EUR 2 billion in 2011), being in part offset by activity growth in BES Angola, whose loan book grew by EUR 1.1 billion, or 40%, year-on-year.

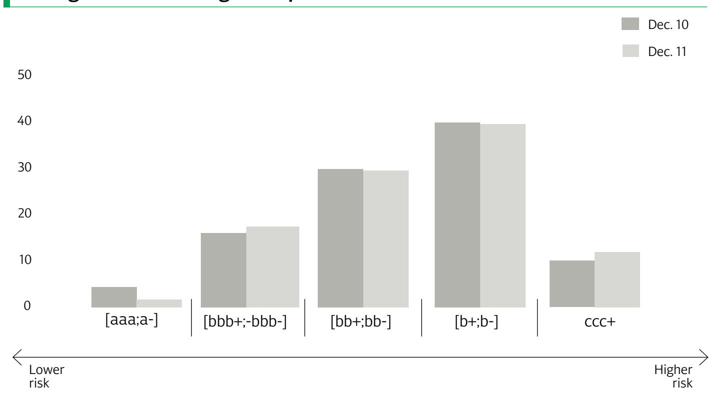
Geographic Breakdown of Credit Portfolio



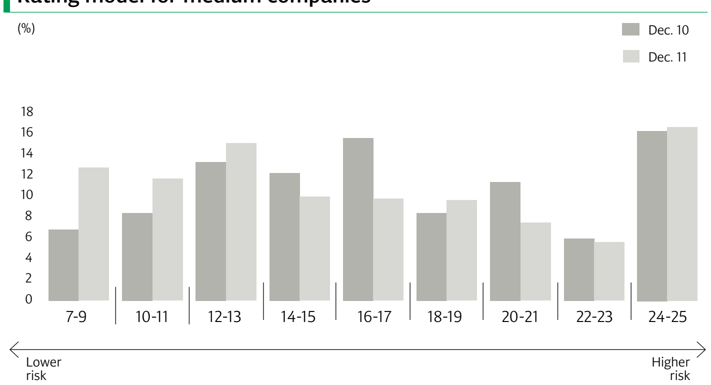
Loan portfolio breakdown by risk rating

The Group uses internal rating systems to support credit decisions and credit risk monitoring. The average probability of default given by these ratings reflects the current context of economic slowdown which affected both the corporate and the retail segments.

Rating models for large companies

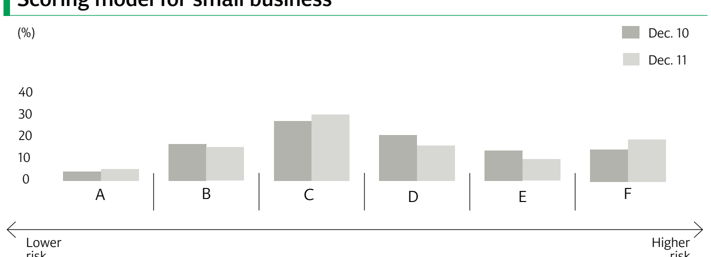


Rating model for medium companies



Note: A comparison between December 2011 and December 2010 should take into account that the internal rating model for medium-sized companies has been revised

Scoring model for small business



Asset Quality

Notwithstanding BES Group's efforts to continuously improve decision procedures and circuits, focus on lower risk client segments and products, and reinforce the recovery support structure, the adverse economic environment at national and international level inevitably penalised its asset quality indicators.

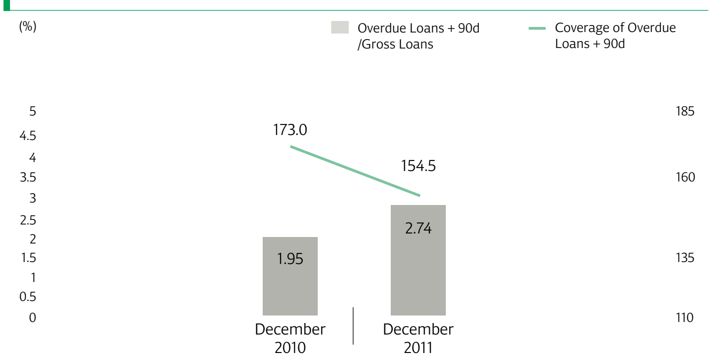
Asset Quality

(Eur million)

	Dec.10	Dec.11	Change	
			Absolute	Relative
EUR million				
Gross loans	52,606	51,211	(1,395)	(2.7%)
Overdue Loans	1,107	1,546	439	39.7%
Overdue Loans + 90d	1,027	1,403	376	36.6%
Credit at Risk [(1)]	2,623	3,374	751	28.6%
On-balance sheet provision reserve	1,777	2,167	390	22.0%
Credit Provisons	352	601	249	70.7%
(%)				
Overdue Loans / Gross Loans	2.10%	3.02%	0.92 p.p.	
Overdue Loans +90d / Gross Loans	1.95%	2.74%	0.79 p.p.	
Credit at Risk / Gross Loans [(1)]	4.99%	6.59%	1.60 p.p.	
Coverage of Overdue Loans	160.6%	140.2%	(20.3 p.p.)	
Coverage of Overdue Loans + 90d	173.0%	154.5%	(18.5 p.p.)	
Coverage of Credit at Risk [(1)]	67.8%	64.2%	(3.6 p.p.)	
On-balance sheet provision reserve / Gross loans	3.38%	4.23%	0.85 p.p.	
Provision Charge	0.67%	1.17%	0.50 p.p.	
Provision Charge net of Recoveries	0.63%	1.12%	0.49p.p.	

(1) According to Instruction 23/2011 of Bank of Portugal. Credit at risk includes: a) total value of credit with capital or interest past due by 90 days or more; b) other restructured credit, where the principal or interest payments were past due by more than 90 days and have been capitalized or refinanced without full coverage by collaterals or the interest fallen due have not been fully paid by the debtor and c) credits of an insolvent or bankrupt debtors.

The overdue loans + 90 days/gross loans ratio increased to 2.74%, from 1.95% in December 2010. The corresponding provisions coverage, though declining by 18.5 p.p., remained at a comfortable 154.5%.

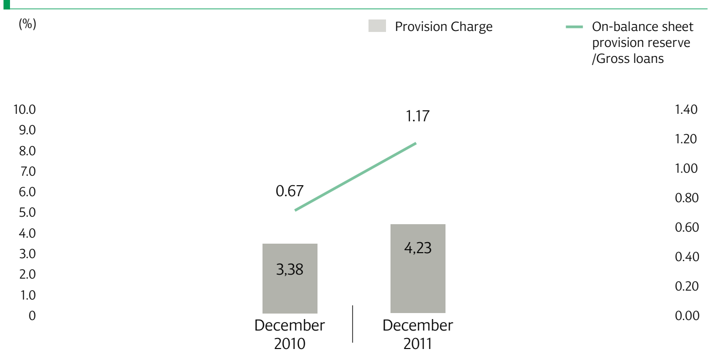


Despite the overall increase in total overdue loans (+ 90 days) in the period, mortgage loans proved quite resistant to this deterioration trend. As would be expected, corporate loans were the worst affected, with the ratio of overdue loans over 90 days increasing by 104 bps. The corresponding provision coverage was 155% at the end of 2011, down by 10.3 pp year-on-year.

Breakdown of odervue loans over 90 days

	Non-performing loans			Coverage		
	2010	2011	Change	2010	2011	Change
Total Loans	**1.95%**	**2.74%**	**79 p.b.**	**173%**	**154%**	**(18.5 p.p.)**
Corporate	2.20%	3.24%	104 p.b.	165%	155%	(10.3 p.p.)
Mortgage	0.68%	0.69%	1 p.b.	277%	201%	(75.6 p.p.)
Individuals (other)	3.92%	4.77%	85 p.b.	156%	120%	(35.7 p.p.)

Credit provisions were reinforced by an expressive EUR 600.6 million, up by 70.7% from EUR 351.8 million in 2010. The provision charge was 1.17% of gross loans, which compares with 0.67% in the previous year. As a result of this provisioning effort, the credit provisions/gross loans ratio increased to 4.23%, from 3.38% in December 2010.



B.2. Exposure to Emerging Markets

As of December 31st, 2011, the foreign currency exposure to emerging markets as determined under the Bank of Portugal country-risk criteria was EUR 4,994 million, which represents 6.2% of consolidated assets (December 31st, 2010: 6.9%).

(Eur million)

Country	Bank of Portugal risk weight	Dec. 2010 Net exposure Total	Dec. 2010 Net exposure in foreign currency	Dec. 2010 Structure (%)	Dec. 2011 Gross exposure (1) Total	Dec. 2011 Gross exposure (1) Fair value reserve	Dec. 2011 Guarantees and deductions(2)	Dec. 2011 Net exposure Total	Dec. 2011 Net exposure in foreign currency	Dec. 2011 Structure (%)
Latin America		**4,392**	**1,635**	**44**	**3,901**	**0**	**767**	**3,134**	**1,075**	**34**
Bahamas	0%	1	1	0	1	0	0	1	1	0
Brazil	0%	4,034	1,277	41	2,748	0	41	2,708	649	29
Mexico	10%	11	11	0	67	0	57	9	9	0
Panama	10%	321	321	3	475	0	78	397	397	4
Venezuela	25%	0	0	0	580	0	573	7	7	0
Other		25	25	0	30	0	18	11	11	0
Eastern Europe		**41**	**2**	**0**	**83**	**0**	**6**	**77**	**9**	**1**
Croacia	10%	0	0	0	0	0	0	0	0	0
Ukraine	25%	0	0	0	1	0	1	0	0	0
Other		41	2	0	82	0	5	77	9	1
Asia Pacific		**287**	**209**	**3**	**130**	**0**	**4**	**126**	**101**	**1**
China	10%	29	29	0	12	0	2	10	10	0
India	10%	37	37	0	11	0	0	11	11	0
Macao	10%	161	83	2	82	0	0	82	57	1
Turkey	25%	32	32	0	1	0	1	0	0	0
Other		28	28	0	25	0	1	23	23	0
Africa		**5,196**	**3,941**	**52**	**6,713**	**5**	**801**	**5,911**	**3,809**	**64**
South Africa	10%	9	9	0	31	0	15	16	16	0
Angola	10%	5,054	3,808	51	6,511	0	739	5,772	3,678	62
Cape Verde	25%	100	99	1	99	0	8	92	91	1
Morocco	10%	9	0	0	9	5	1	8	0	0
Other		25	25	0	63	0	38	24	24	0
Total		**9,917**	**5,788**	**100**	**10,826**	**6**	**1,578**	**9,248**	**4,994**	**100**
% Net assets		**11.9%**	**6.9%**		**13.5%**			**11.5%**	**6.2%**	

(1) Exposure net of provisions for country risk
(2) Includes Trade Finance less than 1 year in the amount of EUR 491 million and IFC B Loans in the amount of EUR 0.4 million

The main emerging economies posted strong GDP growth rates in 2011. BES Group operates in several countries within the emerging world, namely in Angola and Brazil, where its activity grew in tandem with the local economy. The Group's net exposure to these two countries represents 29% and 62%, respectively, of its global exposure to the emerging markets.

On the other hand, due to the sale in 2011 of BES Group's stake in Bradesco, exposure to Brazil declined as a percentage of the total exposure to the emerging markets.

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

5.6.2 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, commodity prices, volatility and credit spreads.

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 estimation of potential losses under adverse market conditions, for which Value at Risk (VaR) methodology is used. VaR is calculated using the Monte Carlo simulation, with a 99% confidence level 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, daily back testing exercises are performed, permitting to compare the losses foreseen by VaR model 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 potential losses under extreme scenartios.

B. Analysis of Market Risk

Consolidated value at risk (VaR) on December 31st, 2011, relating to trading positions in equities, interest rate instruments, volatility, credit spreads, 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 47.5 million, corresponding to 0.8% of BES Group's consolidated Tier I capital.

Value at Risk 99% at 10 days

(Eur million)

	Dez.11	Máximo 2011	Média 2011
Equity and commodities	13,6	12,0	19,2
Interest rate	10,8	14,9	11,4
FX	4,9	11,6	9,3
Volatility	14,3	58,0	30,1
Credit spreads	15,2	11,2	10,4
Diversification effects	(11,1)	(19,0)	(15,6)
Total	**47,5**	**88,7**	**64,7**

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, 2011 the risk factors to which BES Group was more exposed were South American indices, index volatility in Europe, African exchange rates and credit spreads in European countries.

(Eur million)

	Extreme scenario	Loss
Interest Rate Risk	15% yield curve twist - Europe	7,5
	20% yield curve twist - North America	6,0
	15% parallel yield curve shift - Europe	5,1
	25% parallel yield curve shift - North America	4,6
Fx Risk	20% change in Africa countries	51,1
	35% change in South American countries	8,9
	10% change in Asian countries	3,1
	20% in North Americans countries	2,6
Equity Risk	50% change in South American Indexes	112,8
	25% change in European indexes	29,5
	25% in North American indexes	1,7
Volatility Risk	35% change in volatility in European Indexes	65,6
	34% change in interest rate volatility in American Countries	17,9
	25% change in volatility in South American countries	17,9
Credit Spreads Risk	72% in credit spreads in European countries	36,1
	70% in credit spreads in African countries	8,0

5.6.3 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 on net interest income. On December 31st, 2011, interest rate risk, measured as its impact on BES Group's shareholders' equity, was EUR 351 million, which compares with EUR 596 million at year-end 2010.

5.6.4 Liquidity Risk

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

During 2011 liquidity risk continued to be one of the main risks faced not only by BES Group but by the entire banking sector. Initially concentrated on the peripheral European countries that requested external assistance, by the end of the year liquidity risk had spread across almost the whole of Europe. The short and medium term wholesale markets remained closed to Portugal.

BES Group has been upgrading its liquidity risk management framework for alignment to best international practices. This entailed the update of liquidity risk identification, assessment and reporting tools, resulting in further assurance that the Bank will meet all its responsibilities not only in normal times but also in periods of stress.

BES Group's management of liquidity risk is centralised in BES's Financial Department, which monitors and controls liquidity risk on a daily basis with the objective of ensuring that BES Group maintains adequate liquidity levels to meet its short term funding needs, and refinances its current activity in due time, and at optimum cost.

The Financial Plan for each year is drawn up based on the approved budget. Taking into account the structural liquidity mismatches identified, the debt maturities and the expected behaviour of cash flows with undefined duration, a plan is drafted based on tolerance to risk and compliance with the regulatory requirements, with the objective of ensuring a robust balance sheet. This plan is monitored on a regular basis and revised in the course of the year, as necessary.

Even in the adverse environment that characterised 2011, BESGroup pursued its effort to diversify its funding sources, namely contracting in September a 3-year USD 300 million unsecured credit facility with China Development Bank Corporation. Because it mitigates the risk of liquidity, funding diversification is one of the objectives of the Bank's policy to ensure tolerance to this risk.

In 2010 the Basel Committee proposed capital and liquidity reforms, including the introduction of liquidity ratios, with the objective of ensuring that financial institutions hold high quality liquid assets and maintain stable funding sources and therefore are more resilient to shocks. Compliance with these ratios will be required as from January 2013, although still being subject to changes in accordance with the feedback provided by banks and regulators. BES closely monitors these changes in the regulations as well as their possible impacts on BES Group's liquidity management.

Under the Memorandum of Understanding signed in May by the Portuguese Government, the European Commission, the European Central Bank and the International Monetary Fund to preserve the stability of the Portuguese financial system, maintain liquidity and support a balanced and orderly deleveraging of the banking system, Banks were required to reach a loan to deposits ratio of 120% and a stable funding ratio (limiting reliance on European Central Bank and wholesale short term funding) of 100% in December 2014. BES Group's planning aims to achieve compliance with these limits.

In accordance with Bank of Portugal instruction no. 13/2009, on December 31st, 2011 the Group had an accumulated mismatch up to 12 months of EUR -575 million, which compares with EUR -5,463 million in December 2010. The net assets buffer with maturity over one year declined from EUR 5,502 million in December 2010 to EUR 2.794 million in December 2011. The positive evolution of the accumulated mismatch is explained by BES's access to the ECB's long term refinancing operations, for an amount totalling EUR 5 billion, which in turn had a negative impact on the net assets buffer with maturity over one year.

In order to pre-empt possible constraints, BES Group simulates extreme liquidity scenarios, calculating an impact over three months, although this period may vary according to the severity of the scenarios. On-and -off-balance sheet cash flows are subject to specific scenarios and systemic scenarios in order to assess the impact of extreme, but plausible, events, on liquidity positions. The results obtained are compared against the liquidity buffer and the contingency plan, with the objective of ensuring that the Group is capable of generating sufficient liquidity in the case of extreme events. These results are also used as an element in the definition of objectives concerning liquidity risk positions.

BES Group's Liquidity Contingency Plan was drawn up with the objective of mitigating the impact of a liquidity crisis through crisis detection mechanisms and a strategy of clearly defined and assertive measures to deal with such crises.

In the current context, access to rediscount operations with the ECB continued to be instrumental, while the short and medium term international markets were inaccessible.

In 2011 BES Group increased the portfolio of securities eligible for rediscount with the European Central Bank by EUR 2,898 million (net of haircuts).

An important fact in 2011 was the approval by the Financial Services Authority (FSA), on August 15th, of BES's application for a Whole Firm Liquidity Modification, which allowed BES to operate in London, through its branch, without liquidity requirements.

The Bank's liquidity management in 2011 is described in chapter 4 - Financial Management and Capital Markets.

5.6.5 Operational risk

Operational risk may be defined as the probability of occurrence of 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. Operational risk is therefore the sum of the operating, information systems, compliance and reputation risks.

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 effectiveness of risk management and controls, identifies required steps for improvement and assesses their implementation;

• the Security Management and Coordination Department, with responsibility for data security, the safety of people and property, and business continuity.

2011 reflects the consolidation of the governance model that was gradually implemented in the various units within the organisation. The following actions developed during the year had a positive impact on operational risk management:

• Self-assessment exercise conducted within BES and its various subsidiaries and branches aimed at evaluating the main risks incurred. The exercise was extended to the various entities of BES Group, permitting to define a group-wide operational risk profile in accordance with the methodologies implemented;

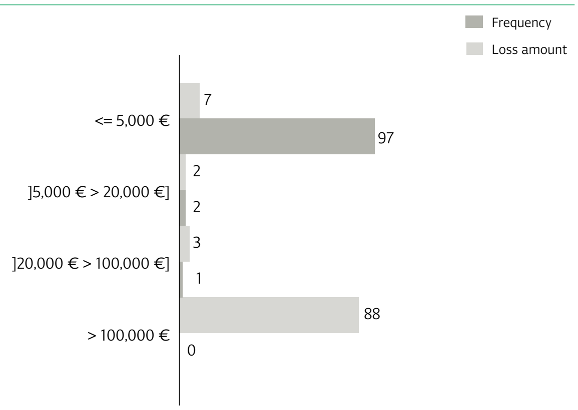
• Implementation within BES and its branches of the Key Risk Indicators (KRI) defined in 2010 in accordance with the risk categories established by the Bank of Portugal's Risk Assessment Model ("MAR");

• Awareness raising to operational risk in several subsidiaries and branches, including actions related to the implementation of processes to control the registration of events with the objective of assessing the effectiveness of the event identification and reporting model;

• Definition of the requirements for implementation of the second phase of AGIRO (operational risk management software application), which will increase the efficiency of the self-assessment process and the monitoring of the Key Risk Indicators. In order to minimise the impacts of a technical operation this size and guarantee that the application is operational at all times, phase 2 is scheduled for implementation immediately after the upgrade of the software's current version, which should take place in the first quarter of 2012.

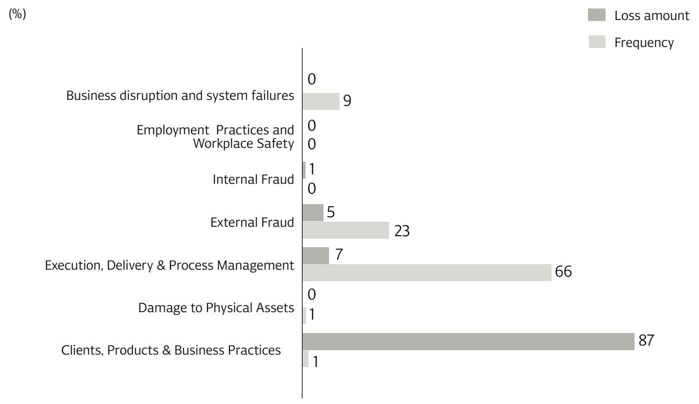
B. Analysis of Operational Risk

An analysis of BES's operational risk profile shows a high percentage of incidents with low financial impact and a small number of incidents with a material financial impact.



In 2011, 97% of the incidents had a financial impact below EUR 5,000. Incidents with an impact above EUR 100,000 were one-off events and mitigation measures were immediately taken.

Breakdown of operational risk events by type of risk



"Execution, delivery & process management" incidents represent a significant 66% share of the total number of identified events, although accounting for 7% only of the overall financial impact in the year. Incidents of "External fraud" remained quite frequent, their impact being largely mitigated by claiming damages under insurance policies contracted.

5.7 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 throughout 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 national 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 developed a commercial approach that not only seeks to meet the clients' financial needs but also to understand and assess their environmental and social risks, therefore contributing to a responsible management of these risks.

As co-sponsor of the Banking & Environment project, together with the United Nations Environmental Programme Finance Initiative (UNEP FI) in 2011 the Bank intervened in the programme's final workshop, under the theme "Natural Resources, Food and Retail - implications for credit analysis", which focused on the agriculture, forestry, fishing and retail sectors.

Drawing on the workshops organised in 2010 and 2011, the Bank cooperated in the drafting of questionnaires addressed to small and medium enterprises (the most representative in its credit portfolio) concerning the main social and environmental risks faced by these companies and the management practices adopted to minimise them. The replies to these questionnaires will permit to improve and fine-tune the mechanisms currently used in the analysis of companies' social and environmental risks and impacts.

With the same objective, the Bank has disclosed the "Banco Espírito Santo's Policy on the Financing of Sectors with an Impact on Forests and Biodiversity", which applies to its activity in Portugal in the financing of projects with an impact on forests. Companies in these sectors will be subject to an environmental risk analysis focusing not only on compliance with the applicable regulations, but also on the implementation of practices that minimise the environmental impact of the project financed.

The publication of this policy widens the scope of the environmental and social risk analyses, while drawing the commercial and risk management areas' attention to these risks in the projects financed.

6. Financial Analysis

In December 2011 BES Group changed the accounting policy related to actuarial diferences determined in post employment benefits, which are now recognised under Other Comprehensive Income (OCI). As determined in IAS 8, changes in accounting policies with material impact require the restatement of prior periods for comparison purposes. Accordingly, the Balance Sheet and Income Statement now presented include the restated data for previous periods.

2011 was negatively impacted by the Eurozone financial crisis and the implementation of the Financial Assistance Programme for Portugal agreed between the Government, the European Union, the European Central Bank and the International Monetary Fund, which established ambitious deleveraging and capitalisation targets. In this context, the following aspects of BES's performance in 2011 should be highlighted:

- Significant improvement in the loan to deposits ratio, which dropped to 141%, from 165% in December 2010, underpinned by the increase in customer deposits to EUR 34.2 billion;

- Capital increase carried out by Banco Espírito Santo aiming to reinforce BES Group's core capital – share capital was raised by EUR 530 million, to EUR 4,030 million;

- Improvement of BES Group's financial strength: Core Tier I increased to 9.2%, Tier I to 9.4% and the Solvency Ratio to 10.7%;

- Prudent liquidity management that kept reliance on ECB funding under control;

- Continued development of the international strategy as a key supporting element of the Group's performance to offset the negative impacts of the economic recession in Portugal; the international area's results totalled EUR 160.8 million;

- Resilience of the commercial banking income (+0.1% year-on-year), despite the reduction of activity due to the crisis and the deleveraging programme;

- One off items charged in 2011: EUR 107 million loss related to the transfer of pension liabilities to the Social Security (EUR 76 million net of taxes); EUR 193.3 million loss in the stake of BES Vida (EUR 144 million net of taxes); and EUR 78 million losses on the sale of international loans (EUR 55.4 million net of taxes);

- Significant increase of provisions: the total provision charge was EUR 848.3 million (+59%), with credit provisions increasing by EUR 600.6 million (+70.7%);

- Consolidation of efficiency levels: the cost to income, although increasing to 48.5%, remained below 50%.

6.1 Activity

Overview

The financial crisis in the Eurozone, the deterioration of financial conditions in Portugal, with successive downgrades of the sovereign ratings, and the implementation of the Financial Adjustment Programme produced a profound change in the Portuguese banks' financing and credit policies.
During the year, there was a EUR 2.8 billion year-on-year reduction in assets (-3.4%), mainly driven by loan sales, amounting to 2.0 billion (EUR 2.7 bn since 1H2011). The strategic option to focus on the sale of international loans aimed to protect the Portuguese companies from an even sharper reduction in credit, and is in line with the Group's traditional support of the Portuguese corporate sector, and in particular of the exporting SMEs, which it is set on maintaining.

Activity Indicators

(eur million)

	Dec.10		Dec.11	Change
	Stated	Restated		
Total Assets (1)	**105,540**	**104,912**	**98,589**	**(6.0%)**
Assets	**83,655**	**83,028**	**80,237**	**(3.4%)**
Customer Loans (incl. securitised)	**52,606**	**52,606**	**51,211**	**(2.7%)**
Loans to Individuals	14,523	14,523	14,326	(1.4%)
- Mortgage	11,701	11,701	11,610	(0.8%)
- Other Loans to Individuals	2,822	2,822	2,716	(3.8%)
Corporate Lending	38,083	38,083	36,885	(3.1%)
(excluding the effect of international credit portfolio sale)	(38,856)	(38,856)	(39,616)	(2.0%)
Total Customer Funds	**55,988**	**55,988**	**54,383**	**(2.9%)**
On-Balance Sheet Customer Funds	38,894	38,894	40,669	(4.6%
- Deposits	30,819	30,819	34,206	11.0%
- Debt Securities placed with Clients (2)	8,075	8,075	6,463	(20.0%)
Off-Balance Sheet Funds	17,094	17,094	13,714	(19.8%)

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

Despite a significant increase in customer deposits (up by EUR 3.4 billion during the year, or 11%), total customer funds dropped by 2.9%, driven by the reduction in debt securities placed with international institutional clients (down by EUR 1.6 billion, or 20%) and the contraction in off-balance sheet funds (which decreased by EUR 3.4 billion, or 19.8%) due to lower bancassurance and asset management activity).

Off-Balance Sheet Funds

(eur million)

	Dec.10	Dec.11	Change	
			Absolute	Relative
Mutual Funds	4,460	4,633	173	3.9%
Real Estate Funds	1,374	1,203	(171)	(12.4%)
Pension Funds	2,655	2,155	(500)	(18.8%)
Bancassurance	5,374	3,478	(1,896)	(35.3%)
Portfolio Management	1,786	878	(908)	(50.8%)
Discretionary Management and Other	1,445	1,367	(78)	(5.4%)
Total	**17,094**	**13,714**	**(3,380)**	**(19.8%)**

International Activity

The sale of international loans programme impacted the credit portfolio of the units abroad, notably in London and New York. However this was in part offset by activity growth in BES Angola, whose loan book grew by EUR 1.1 billion, or 40%, year-on-year.

The good performance of off-balance sheet funds, permitted by the consolidation of assets under management at Gespastor (Spain), was not sufficient to compensate the reduction in certificates of deposit (induced by ratings downgrades), leading total customer funds in the international area to drop by 7.3% year-on-year.

International Banking Business

(eur million)

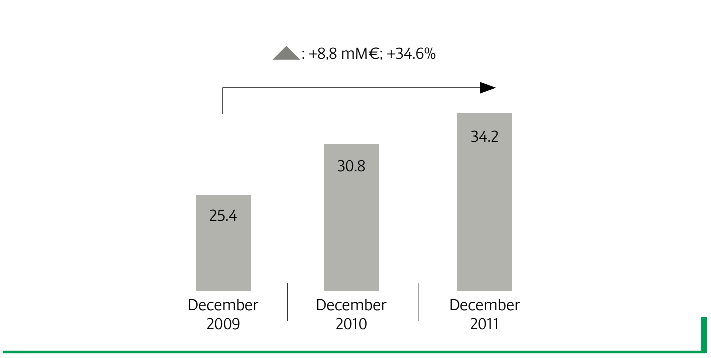
	Dec.10	Dec.11	Change
Total Assets[1]	26,565	25,878	(2.6%)
Customer Loans (Incl. Securitised)	11,186	10,846	(3.0%)
Total Customer Funds	12,841	11,905	(7.3%)

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

6.2 Liquidity Management and Transformation Ratio

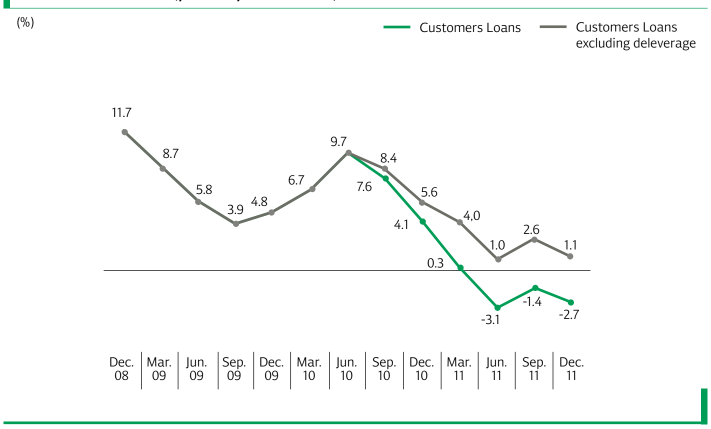
Reaching loans to deposits ratio of 120% in December 2014 requires a focus on deposit growth and a reduction of credit. Indeed, BES Group has consistently increased deposits, which grew by 11% year-on-year, or EUR 3.4 billion, largely underpinned by the contribution of families: the growth of BES retail deposits represented more than 40% of the total growth of retail deposits in the Portuguese financial system (according to Bank of Portugal's most recent available data, of November 2011).

Deposits



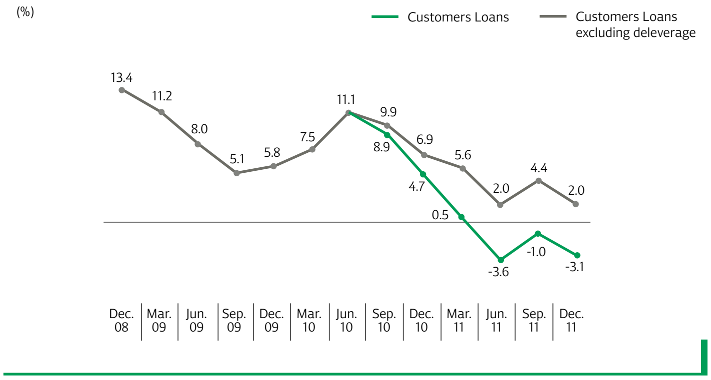
Customer loans dropped by 2.7%, reflecting the implementation of the deleveraging plan, which mainly entailed the sale of international loans.

Customer Loans (year-on-year evolution)



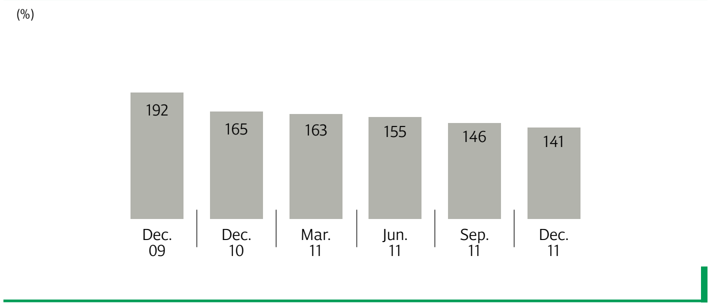
The Group's strategic option to focus on the sale of international loans protected the Portuguese companies from an even sharper reduction in credit. Excluding these sales, corporate loans would have increased by 2.0% instead of decreasing by 3.1%.

Corporate Loans (year-on-year evolution)



The increase in deposits combined with the reduction in loans allowed the loan to deposits ratio to improve from 165% to 141%.

Loan to Deposits Ratio



However, the Group's liquidity remained pressed by medium and long term debt maturing. Therefore, and with the interbank money market unavailable, funding from the ECB has been and will continue to be decisive. The portfolio of assets eligible as collateral in repo operations totalled EUR 18.9 billion, of which EUR 15.1 billion are eligible for ECB liquidity facilities. In December 2011 the Group's net borrowing position at the ECB was ca. EUR 8.7 billion.

6.3 Capitalisation and Capital Adequacy Ratios

One of the more relevant events during the year was the EUR 530 million capital increase raising share capital to EUR 4,030 million on December 31st, 2011.

a. Equity

The table below lists the equity balance sheet items.

Total Equity (Eur million)

	Dec.10		Dec.11	Change
	Stated	Restated		
Capital	4,100	4,100	4,242	142
Ordinary	3,500	3,500	4,030	530
Preferred	600	600	212	(388)
Share Premium	1,085	1,085	1,082	(3)
Other Capital Instruments	270	270	29	(241)
Own Shares	-	-	(1)	(1)
Revaluation Reserves	(10)	(681)	(1,086)	(405)
Other Reserves and Retained Earnings	979	979	1,447	468
Net Income	511	557	(109)	(666)
Minority Interests	541	539	588	49
Total	**7,476**	**6,849**	**6,192**	**(657)**

In 2011 there was a significant increase in core capital components, namely in Ordinary Shares (+ EUR 530 million) and Other Reserves and Retained Earnings (+ EUR 468 million). The EUR 657 million reduction in total equity translates the decreases in hybrid capital instruments (preferred shares and bonds with conditional interest) and revaluation reserves, and also the net loss of year.

Capital Increase

On November 11th, 2011 Banco Espírito Santo held an Extraordinary General Meeting that approved a proposal to increase the Bank's share capital by new contributions in kind, through exchange offers over securities issued by Banco Espírito Santo, Banco Espírito Santo de Investimento and BES Finance. The objective of this transaction was to reinforce BES Group's core capital to comply with Bank of Portugal's capital requirements.

As a result of the exchange offer, which took place from November 14th to 30th, a total of 294,573,418 new ordinary BES shares at the price of EUR 1.80 per share and 81,736 subordinated bonds with EUR 100 par value each were issued.

Capital Increase (eur million)

	Issuer	Nominal Value	Nº of BES shares issued	Nº of Bonds issued
BES	undated deeply subordinated notes with conditional interest	€ 238,400,000	128,527,730	70,400
		USD 2 727 000	992,857	1,918
BES INVESTIMENTO	undated deeply subordinated notes with conditional interest	€ 46,269,000	25,180,367	9,418
BES FINANCE	Undated Subordinated Notes	€ 184,214,000	72,960,255	n.a.
	Non-cumulative guaranteed step-up preference shares series A"	€ 197,446,000	66,912,209	n.a.
TOTAL		**€ 668,308,530**	**294,573,418**	**81,736**

As a result of this transaction, BES's share capital increased to EUR 4,030,232,150.40, represented by a total of 1,461,240,084 ordinary shares.

Capital Increases

Event		nº of shares (million)			Share Capital (eur million)
Order	Month/Year	Share Capital Increase		Accumulated	
		Incorporation of Reserves	Total		
				40.0	200
1	Aug/92	20.0	26.0	66.0	330
2	Aug/95	13.2	21.4	87.4	437
3	Jun 98	17.5	30.2	117.6	588
4	Jul 00	44.6	82.5	200.0	1,000
5	Feb/02	50.0	100.0	300.0	1,500
6	May/06	50.0	200.0	500.0	2,500
7	Apr/09	-	666.7	1,166.7	3,500
8	Dec/11	-	294.6	1,461.2	4,030

b. Solvency

BES Group's solvency ratios are calculated under the Basel II regulations. From the first quarter of 2099 onwards 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 table below provides the relevant information about risk weighted assets, regulatory capital and solvency ratios based on BIS II IRB approach, for December 2011 and December 2010:

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

		Dec.10	Dec.11
Net Assets	(1)	**83,655**	**80,237**
Índice de Risco	(2)/(1)	82%	81%
Risk Weighted Assets	(2)	**68,802**	**65,385**
Banking Book		60,610	59,705
Trading Book		4,219	1,742
Operational Risk		3,973	3,938
Regulatory Capital			
Core Tier I	(3)	**5,416**	**6,020**
Tier I	(4)	**6,040**	**6,171**
Tier II and Deductions		1,758	799
Total	(5)	**7,798**	**6,970**
Core TIER I	(3)/(2)	**7.9%**	**9.2%**
TIER I	(4)/(2)	**8.8%**	**9.4%**
Solvency Ratio	(5)/(2)	**11.3%**	**10.7%**

During the year the Core Tier I increased by EUR 604 million as a result of the capital increase concluded through the exchange offers (EUR 619 million impact). This increase was reduced by the negative fair value reserves for equities in the available for sale portfolio, originating a deduction of EUR 194 million to Core capital. The Group's acquisition of issued subordinated Tier II debt led to a reduction in the eligible regulatory balance to EUR 799 million in Tier II capital.

Risk weighted assets dropped by EUR 3.4 billion, to which contributed mostly the banking book and the trading book. As a result of the measures implemented, the Group's Core Tier I increased to 9.2%, above the Bank of Portugal's requirements set for December 31st, 2011 (Notice no. 3/2011); the Tier I ratio increased to 9.4%, and the total solvency ratio reached 10.7%.

6.4 Results

The persistence of a climate of uncertainty and high risks in the Eurozone, the deleveraging process in the Portuguese financial system, the requirement to reinforce Portuguese banks' capitalisation levels, the introduction of more conservative criteria for impairment calculation, and the transfer of the banks' pension funds to the Social Security, among other factors, severely conditioned the activity and results of BES Group, particularly at domestic level.

Income Statement

(eur million)

	Dec.10		Dec.11	Change	
	Stated	Restated		Absolute	Relative
Net Interest Income	1,164.0	1164.0	1181.6	17.6	1.5%
+ Fees and Commissions	806.9	806.9	790.5	(16.4)	(2.0%)
= Commercial Banking Income	**1,970.9**	**1,970.9**	**1,972.1**	**1.2**	**0.1%**
+ Capital Markets and Other results	432.9	432.9	(21.9)	(454.8)	....
= Banking Income	**2,403.8**	**2,403.8**	**1,950.2**	**(453.6)**	**(18.9%)**
- Operating Costs	1,169.5	1,123.1	1,129.2	6.1	0.5%
= Net Operating Income	**1,234.3**	**1,280.7**	**821.0**	**(459.7)**	**(35.9%)**
- Net Provisions	533.6	533.6	848.3	314.7	59.0%
Credit	351.8	351.8	600.6	248.8	70.7%
Securities	76.5	76.5	73.3	(3.2)	(4.2%)
Other	105.3	105.3	174.4	69.1	65.7%
= Income before Taxes and Minorities	**700.7**	**747.1**	**(27.3)**	**(774.4)**	**....**
- Imediate Tax Burden	59.7	59.7	102.6	42.9	71.9%
Current Tax	59.7	59.7	72.1	12.4	20.8%
Special Tax on Banks	-	-	30.5	30.5	-
- Deferred Taxes	(16.0)	(16.0)	(133.7)	(117.7)	....
= Income after Taxes	**657.0**	**703.4**	**3.8**	**(699.6)**	**....**
- Minority Interests	146.5	146.5	112.6	(33.9)	(23.2%)
= Net Income	**510.5**	**556.9**	**(108.8)**	**(665.7)**	**....**

BES Group posted a net loss of EUR 108.8 million in 2011, mainly explained by the following:

- net interest income grew by 1.5% only, being impacted by the deleveraging process, based on deposit growth and the reduction of the credit portfolio;
- the increase of impairments resulting from the deterioration of the economic situation totalled EUR 848.3 million, up by EUR 314.7 million (+59%) year-on-year; the credit provision charge increased by EUR 248.8 million (+70.7%), to EUR 600.6 million;
- the booking of extraordinary charges totalling EUR 378.3 million (EUR 275.4 million net of taxes), resulting from: transfer of pension liabilities to the Social Security, leading to a loss of EUR 107 million (EUR 76 million net of taxes); EUR 193.3 million loss in the stake in BES Vida (EUR 144 million net of taxes); and EUR 78 million losses on the sale of international loans (EUR 55.4 million net of taxes);
- operating costs were subject to strict control, remaining at the previous year's level despite the consolidations of new units in the international area;
- the immediate tax burden increased to EUR 30.5 million, namely through the introduction in 2011 of a special tax on the Banking Sector;
- the development of the international strategy as a key supporting element of the Group's performance to offset the negative impacts of the economic recession in Portugal - the latest development being the opening of a BES branch in Caracas, Venezuela, the first held by a Portuguese bank in this country.

Excluding one off items, the Group would have posted a net profit of EUR 166.6 million. In addition, gains on the acquisition of debt instruments issued by the Group, in the amount of EUR 148.8 million (EUR 105.6 million net of taxes) were accounted in reserves, in accordance with applicable accounting rules.

Domestic and International Business

Inevitably, BES Group's international performance was also adversely affected by the European sovereign debt crisis and the more restrictive monetary policies adopted by certain emerging economies in light of inflationary pressures. On the other hand, the sale of international loans resulted in a 3.1% reduction in the international commercial banking income.

Domestic and International Income Statement

	Domestic activity				International Activity		
	2011		2011	Change	2010	2011	Change
	Stated	Restated					
Net Interest Income	611.2	611.2	645.7	5.7%	552.8	535.9	(3.1%)
+ Fees and Commissions	610.0	610.0	600.1	(1.6%)	196.9	190.4	(3.3%)
= Commercial Banking Income	**1,221.2**	**1,221.2**	**1,245.8**	**2.0%**	**749.7**	**726.3**	**(3.1%)**
+ Capital Markets and Other results	408.9	408.9	(34.0)	....	24.0	12.1	(49.7%)
= Banking Income	**1,630.1**	**1,630.1**	**1,211.8**	**(25.7%)**	**773.7**	**738.4**	**-4.6%**
Operating Costs	886.7	840.3	793.5	(5.6%)	282.8	335.7	18.7%
= Net Operating Income	**743.4**	**789.8**	**418.3**	**(47.0%)**	**490.9**	**402.7**	**(18.0%)**
- Net Provisions	430.5	430.5	778.6	80.9%	103.1	69.8	(32.3%)
Credit	258.7	258.7	538.2	108.0%	93.1	62.4	(33.0%)
Securities	76.9	76.9	73.4	(4.6%)	(0.4)	(0.1)	(88.1%)
Other	94.9	94.9	166.9	76.0%	10.4	7.5	(28.4%)
= Income before Taxes and Minorities	**312.9**	**359.3**	**(360.3)**	**....**	**387.8**	**332.9**	**(14.2%)**
- Imediate Tax Burden	32.9	32.9	93.7	184.9%	26.8	8.9	(66.7%)
Impostos Correntes							
Current Tax	32.9	32.9	63.2	92.2%	26.8	8.9	(66.7%)
Special Tax on Banks	-	-	30.5	-	-	-	-
- Deferred Taxes	(48.9)	(48.9)	(183.0)	....	32.9	49.3	49.9%
= Income after Taxes	**328.9**	**375.3**	**(271.0)**	**....**	**328.1**	**274.7**	**(16.3%)**
- Minority Interests	22.2	22.2	(1.4)	(106.3%)	124.3	113.9	(8.4%)
= Net Income	**306.7**	**353.1**	**(269.6)**	**....**	**203.8**	**160.8**	**(21.1%)**

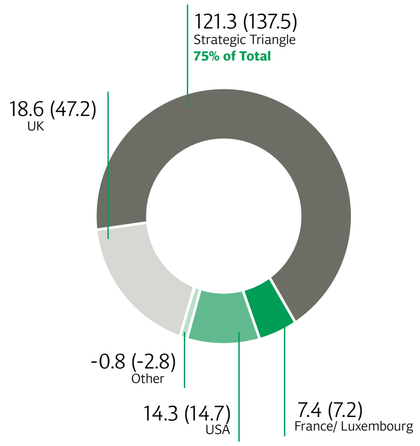
The decrease in banking income and the increase in operating costs, due to the consolidation of Execution Noble, led to a reduction in international net income to EUR 160.8 million (-21.1% YoY).

At domestic level, despite the positive performance of commercial banking income (+2.0%) and operating costs (-5.6%), the activity was penalised by the increase in provisions (the provision charge totalled EUR 778.6 million, which is 1.8 times the charge in 2010) and by one off charges.

Net income from the strategic triangle declined from EUR 137.5 million to EUR 121.3 million. However, given the impact of deleveraging on the other international units, particularly the United Kingdom, its contribution to the total international activity increased to 75% (Dec.10: 67%).

International Area's Contribution to Net Income

(eur million) () 2010



Strategic Triangle

	2010	2011
África*	92.6	91.0
Brazil	32.1	20.4
Spain	12.8	9.9
Total	**137.5**	**121.3**

a. Net Interest Income and Net Interest Margin

Net interest income reached EUR 1,181.6 million, which represents a slight increase over 2010 (EUR 1,164.0 million). The management of net interest income presented one of the greatest challenges for 2011, being conducted in an adverse environment characterised by:

- increased efforts to attract customer funds, namely deposits, causing the average annual rate on customer funds to rise by 132 bps, well above the 58 bps increase in the market's reference rate (3-month Euribor);
- a EUR 1.9 billion reduction in interest earning assets caused by the reduction in customer loans;
- although the rate on interest earning assets increased by 105 bps (with the interest rate on loans rising by 128 bps), this was lower than the increase in the interest rate on deposits.

Net Interest Income and Net Interest Margin

	2010			2011		
	Average Balance	**Yield (%)**	**Revenues/ Costs**	**Average Balance**	**Yield (%)**	**Revenues/ Costs**
Interest Earning Assets	71,820	4.07	2,922	70,267	5.10	3,587
Customer Loans	52,042	3.92	2,038	51,520	5.20	2,678
Other Assets	19,778	4.47	884	18,747	4.85	909
Other	343	-	-	12	-	-
Interest Earning Assets and Other	**72,163**	**4.05**	**2,922**	**70,279**	**5.10**	**3,587**
Interest Bearing Liabilities	72,163	2.44	1,758	70,279	3.42	2,405
Deposits	27,146	1.87	508	32,535	3.19	1,038
Other Liabilities	45,017	2.78	1,250	37,744	3.62	1,367
Other		-	-	-	-	- -
Interest Bearing Liabilities and Other	**72,163**	**2.44**	**1,758**	**70,279**	**3.42**	**2,405**
Net Interest Income / Net Interest Margin		**1.61**	**1 164**		**1.68**	**1,182**

The net interest margin increased by 7 bps in 2011, translating a careful asset and liability management – higher increase in the rate on interest earning assets (+ 105bps) than in the rate on interest bearing liabilities (+ 98 bps).

The increase in net interest income was driven by the price and volume/ price effects (+EUR 48 million), as the volume effect had a negative impact of EUR 30 million.

Price versus Volume effect

(eur million)

	Volume Effect	Price Effect	Volume / Price Effect	YoY Change
interest Earning Assets	-76	760	-19	665
Interest Bearing Liabilities	-46	711	-18	647
Net Interest Income	-30	49	-1	18

b. Fees and Commissions

Fees and commissions decreased by 2% year-on-year, to EUR 790.5 million, as a result of lower activity on lending, asset management and bancassurance.

Fees and Commissions

(eur million)

Commissions	**Dec.10**	**Dec.11**	**Change**	
			Absolute	**Relative**
Collections	21.8	19.7	(2.1)	(9.8%)
Securities	51.0	89.9	38.9	76.5%
Guarantees	92.2	125.4	33.2	36.0%
Account Management	84.9	81.1	(3.8)	(4.5%)
Loan Commissions and similar(1)	212.2	176.2	(36.0)	(17.0%)
Documentary Credit	90.7	81.4	(9.3)	(10.2%)
Asset Management(2)	102.0	85.8	(16.2)	(15.9%)
Cards	40.0	40.9	0.9	2.3%
Bancassurance	56.4	34.9	(21.5)	(38.1%)
Other	55.7	55.2	(0.5)	(1.0%)
Total	**806.9**	**790.5**	**(16.4)**	**(2.0%)**

(1) Includes loan commissions, project finance, funding and factoring
(2) Includes investment funds and portfolio management

The slowdown of lending led to a reduction in commissions on loans (-17.0%), documentary credits (-10.2%), and collection services (-9.8%).

Asset management and bancassurance fees fell sharply (-15.9% and -38.1%, respectively), translating the clients' increased preference for lower risk products, namely deposits.

There was however an improvement in certain areas, namely in commissions on securities (+76.5%), underpinned by the consolidation of Execution Noble and commercial paper issuance, and also in commissions on guarantees (+36.0%), also driven by commercial paper issuance.

It should be noted that at the end of December Banco Espírito Santo and American Express announced a new partnership that will enable BES to issue its own range of American Express-branded credit cards in Portugal. The new cards were designed to meet the financial requirements and lifestyles of BES's customers, offering the range of services provided by that prestigious international brand.

c. Capital Markets and Other Results

2011 was marked by strong investor concerns with the public accounts of the Eurozone countries and consequent increase in risk aversion and uncertainty levels, leading to a significant widening of credit spreads for public debt in the peripheral countries. Moreover, negative investor sentiment about the Eurozone led to a strong volatility of the Euro against several currencies such as the USD and the BRL.

In this context, capital markets and other results translate the sharp devaluation of the main price indices of both equity and debt instruments, while also being penalised by one off losses in the year.

Capital Markets and Other Results

(eur million)

	Dec.10	Dec.11	Change
Interest Rate, Credit and FX	**(27,5)**	**142,6**	**170,1**
Interest Rate	29,9	84,1	54,2
Credit	(117,0)	117,1	234,1
FX and Other	59,6	(58,6)	(118,2)
Equity	**396,5**	**125,8**	**(270,7)**
Trading	203,2	(41,9)	(245,1)
Dividends	193,3	167,7	(25,6)
Other results	**63,9**	**(290,3)**	**(354,2)**
Total	**432,9**	**(21,9)**	**(454,8)**

Capital markets results were impacted by the devaluation of equity instruments in 2011, which led to a fall of ca. EUR 271 million in this area's results and the partial transfer of the pension funds to the Social Security, which led to the recognition of a EUR 107 million financial loss, due to the revaluation of future liabilities at 4% discount rate. Results were also impacted by the sale of international loans, which originated a loss of EUR 78 million and the goodwill impairment and negative results of BES Vida, amounting to EUR 193.3 million.

Excluding these one off charges, which totalled EUR 378 million, capital markets & other results would have posted a profit of EUR 356 million, confirming the Group's capacity to seize any windows of opportunity afforded by the market, even in an adverse environment.

d. Operating Costs

Operating costs increased by 0.5% only, notwithstanding an 18.7% rise in costs resulting from expansion and a new consolidation scope in the international area.

Operating Costs

(eur million)

	Domestic		International		Consolidated	
	Amount	Change	Amount	Change	Amount	Change
Staff Costs	395,2	(6.0%)	192,3	19.1%	587,5	1.0%
Admin Costs	316,7	(7.0%)	117,1	16.2%	433,8	(1.7%)
Depreciation	81,6	2.5%	26,3	27.7%	107,9	7.8%
Total	**793,5**	**(5.6%)**	**335,7**	**18.7%**	**1 129,2**	**0.5%**

Staff costs rose by 1.0% (+19.1% international and +6.0% domestic). The general administrative costs decreased by 1.7% as a result of a 7.0% reduction in domestic costs, as international costs rose by 16.2%. Investments in IT, equipment and premises, mainly in the international business units, determined a 7.8% increase in amortisation and depreciation.

Staff Costs

(eur million)

	2010 restated	2011	Change	
			Absolute	Relative
Remunerations and social charges	465,8	471,6	5.8	1.2%
Post-Employment benefits	116,1	115,9	(0.2)	(0.2%)
Total	**581,9**	**587,5**	**5.6**	**1.0%**

Retirement Pensions

Two important changes concerning liabilities and charges with post-employment benefits occurred during the year, namely: (i) the change of the accounting policy used to recognise actuarial differences; and (ii) the transfer to the Social Security of pensions in payment. The impact of these changes is explained below.

(i) Change in the accounting policy for the recognition of actuarial differences

As allowed under IAS 19 (§93A) and in line with this standard's expected evolution in the near future, BES Group decided to start recording actuarial differences (in both the consolidated and individual accounts) under Other Comprehensive Income (OCI), from the previous corridor method. This change resulted in a net EUR 551 million reduction in BES Group's assets and equity in the consolidated balance sheet for December 31st, 2011.

Since the change of accounting policy produced effects as from the start of 2011, the amortisation of actuarial differences accounted for as staff costs in 2011 was reversed, and the 2010 accounts were accordingly adjusted for comparison purposes.

(ii) Transfer of pensions in payment to the Social Security

Following the integration of the banking sector employees in the General Social Security Scheme, in December 2011 the pension liabilities in payment (to pensioners and surviving dependents) were transferred to the Social Security, in accordance with Decree-Law no. 127/2011.

This process had the following impacts on BES Group's financial statements:

- the liabilities transferred amounted to EUR 961 million;
- the amount paid on December 30th, 2011 was EUR 529 million with the remainder (EUR 432 million) to be paid until June 30th, 2012;
- the use of a discount rate of 4% determined an extraordinary charge of EUR 107 million borne directly by BES Group, with a negative impact of EUR 76 million (net of taxes) on net income for the year.

Health care benefits (provided under the SAMS scheme for banking sector employees) and future pension updates, among others, were not transferred to the Social Security, continuing to be ensured by the pension funds.

Coverage of post-retirement liabilities

The liabilities that remained in the Group totalled EUR 1,078 million on December 31st, 2011.

Coverage of post-retirement liabilities

(eur million)

	Dec.10	Dec.11
Total Post-Employment Benefits	2,205	1,078
Value of Plan Assets	2,206	1,185
Coverage	100%	110%

e. Productivity and Efficiency

The Cost to Income excluding capital markets and other results was 57.3%, which is in line with the previous year's. The total Cost to Income increased to 57.9%, as a result of the reduction of capital markets results due to the impact of the extraordinary charges; without these impacts, it would have been 48.5%, thus remaining below 50%.

Productivity and Efficiency Indicators

	2010		2011	
	Stated	Restated	Stated	without one-offs
Cost to Income	48.6%	46.7%	57.9%	48.5%
Cost to Income (ex-markets)	59.3%	57.0%	57.3%	57.3%

f. Provisions

The increased risks arising from the real fall of GDP and sharp rise of unemployment in 2011 led to a significant reinforcement of provisions: the total provision charge in 2011 was EUR 848.3 million, which is EUR 314.7 million, or 59.0%, more than in 2010.

Provisions Breakdown (eur million)

	2010	2011	Change	
			Absolute	Relative
Credit	351,8	600,6	248,8	70.7%
Securities	76,5	73,3	(3,2)	(4.2%)
Other Risks and Charges	105,3	174,4	69,1	65.7%
Total	**533,6**	**848,3**	**314,7**	**59.0%**

The credit impairments totalled EUR 600.6 million, up by 70.7 % from EUR 351.8 million in 2010. The corresponding provision charge was 1.17% of gross loans, which compares with 0.67% in the previous year. The balance of provisions reached EUR 2.2 billion (+22%), corresponding to 4.23% of gross loans (3.38% in Dec.10).

Credit Provisions (eur million)

	2010	2011	Change	
			Absolute	Relative
Gross Customer Loans	52,606	51,211	(1,395)	(2.7%)
Provisions increase	351.8	600.6	248.8	70.7%
Provision Reserve	1,777.0	2,167.4	390.4	22.0%
Provision charge	0.67%	1.17%	0.50 pp	
Credit provisions Reserve/Customer Loans	3.38%	4.23%	0.85 pp	

Credit provisions include EUR 42.7 million resulting from the Special Inspections Programme, less than the amount disclosed in June 2011 (EUR 125 million), as additional provision charges have been made in accordance with BES Group's usual criteria.

Finally, provisions for securities totalled EUR 73.3 million, led by the general devaluation of market prices and the deterioration of certain issuers' credit quality, while other provisions reached EUR 174.4 million, of which 70% for impairment losses in reposessed assets.

6.5 Profitability

The gross commercial margin - the indicator of current banking activity performance - rose by 8pp, underpinned by the increase in the net interest margin. The one-off charges, the reinforcement of provisions and the special tax on the banking sector, led to a net loss in the year and consequently to negative returns. Excluding one off charges, ROE and ROA would be 2.8% and 0.2%, respectively.

Profitability Breakdown (%)

	Dec.10		Dec.11	Chg p.p.
	Stated	Restated		
Yield on Interest Earning Assets	4.05	4.05	5.10	1.05
- Yield on Interest Bearing Liabilities	2.44	2.44	3.42	0.98
= Net Interest Margin	**1.61**	**1.61**	**1.68**	**0.07**
+ Return on Commissions and Fees	1.12	1.12	1.12	0.01
= Gross Commercial Margin	**2.73**	**2.73**	**2.81**	**0.08**
+ Return on Capital Markets and other Results	0.60	0.60	(0.03)	(0.63)
= Business Margin	**3.33**	**3.33**	**2.78**	**(0.56)**
- Weighting of Operating Costs	1.62	1.56	1.61	0.05
- Weighting of Provisions	0.74	0.74	1.21	0.47
- Weighting of Minorities and Other	0.26	0.26	0.12	(0.15)
= Return on Interest Earning Assets	**0.71**	**0.77**	**(0.15)**	**(0.92)**
x Weighting of Interest earning Assets	0.86	0.86	0.86	(0.01)
= Return on Assets	**0.61**	**0.66**	**0.00**	**(0.66)**
x Placements multiplier	14.03	14.11	13.72	(0.39)
= Return on Equity	**8.55**	**9.38**	**(0.05)**	**(9.43)**

6.6 Financial Analysis of Banco Espírito Santo

Key Indicators *

	SIMBOL.	2007	2008	2009	2010	2011
Balance (Eur million)						
Total Assets [1]	TA	79,784	88,959	98,094	98,595	93,268
Net Assets	NA	57,789	66,743	74,120	75,334	74,087
Interesting Earning Assets (average)	IAE	44,327	52,359	60,063	65,762	63,961
Capital and Reserves (average)	KP	3,419	3,610	4,585	5,136	5,283
Income Statement (Eur million)						
Net Interest Income	NII	723,9	799,1	909,1	662,4	653,9
+ Fees and Commissions	FC	404,2	408,9	468,7	498,6	483,7
= Commercial Banking Income	CBI	1,128,1	1,208,0	1,377,8	1,161,0	1,137,6
+ Capital Markets and Other Results	CMR	367,1	71,9	475,8	344,2	476,5
= Banking Income	BI	1,495,2	1,279,9	1,853,6	1,505,2	1,614,1
- Operating Costs	OC	715,0	753,5	766,8	819,1	781,1
- Provisions and Taxes	ProvT	276,4	302,1	672,6	387,3	966,1
= Net Income	NII	503,8	224,3	414,2	298,8	(133,1)
Profitability (%)						
Net Interest Margin	NII / IEA	1.63	1.53	1.51	1.01	1.02
+ Return on Fees and Commissions	FC / IEA	0.91	0.78	0.78	0.76	0.76
+ Return on Capital Markets and Other Results	CM / IEA	0.83	0.14	0.79	0.52	0.74
= Business Margin	BI / IEA	3.37	2.44	3.09	2.29	2.52
- Weighting of Operating Costs	OC / IEA	1.61	1.44	1.28	1.25	1.22
- Weighting of Provisions and Taxes	Prov / IEA	0.62	0.58	1.12	0.59	1.51
= Return on Financial Assets	RFA / IEA	1.14	0.43	0.69	0.45	(0.21)
x Weighting of Interest Earning Assets	IEA / NA	0.85	0.85	0.84	0.87	0.85
= Return on Assets (ROA)	NP / NA	0.96	0.36	0.58	0.39	(0.18)
x Placements Multiplier	NA / KP	15.32	17.03	15.55	14.78	14.23
= Return on Equity (ROE)	NP / KP	14.73	6.21	9.03	5.82	(2.52)

(*) Historical data restated according to changes in accounting policy for booking actuarial deviations
(1) Net Assets + Asset Management + Securitised Credit

6.6.1 Activity

The deterioration of financial conditions caused by the increase of sovereign risk, the necessary deleveraging of the Portuguese financial system, and the drop in domestic demand conditioned the activity of Banco Espírito Santo during 2011. In this context, total assets declined by 5.4% year-on-year.

Customer deposits had a strong performance, growing by 17.3%. Total customer funds (which include deposits, bonds and other securities placed with clients) registered a small 0.8% decline, translating the sharp reduction in certificates of deposits and a decrease in off-balance sheet customer funds.

Customer loans dropped by 3.8% due to sale of international loans under the deleveraging plan (EUR 1.3 billion impact on BES's balance sheet); without this impact, customer loans would have decreased by 2.3%, and corporate loans by 1.6% only.

Activity Indicators

(%)

	Dec.10		Dec.11	Chg
	States	Restated		
Total Assets [1]	**99,225**	**98,595**	**93,268**	**(5.4%)**
Net Assets	**75,964**	**75,334**	**74,087**	**(1.7%)**
Customer Loans (including securitised)	**42,237**	**42,237**	**40,638**	**(3.8%)**
Loans to Indivuals	11,302	11,302	10,812	(4.3%)
- Mortgage	8,615	8,615	8,493	(1.4%)
- Other Loans to Individuals	2,687	2,687	2,319	(13.7%)
Corporate Lending	30,935	30,935	29,826	(3.6%)
Total Customer Funds	**47,424**	**47,424**	**47,035**	**(0.8%)**
On-Balance Sheet Customer Funds	31,219	31,219	33,890	8.6%
- Deposits	26,591	26,591	31,179	17.3%
- Debt Securities Placed with Clients	4,628	4,628	2,711	(41.4%)
Off-Balance Sheet Customer Funds	16,205	16,205	13,145	(18.9%)

(1) Net Assets + Asset Management + Securitised Credit

At year-end the loan portfolio revealed a deteriorating trend in loan loss levels: The overdue loans ratio (>90 days) increased to 3.11% (Dec.10: 2.30%), with the respective provision coverage declining to 155.0% (Dec.10: 163.5%).

It is worth stressing the favourable evolution of total balance of credit provisions over total loans, which has been consistently increasing, rising by 105 bps year-on-year, to 4.81%.

Asset Quality

(eur million)

	Dec.10	Dec.11	Change	
			Absolute	Relative
(Eur million)				
Gross Loans	42,237	40,638	(1,599)	(3.8%)
Overdue Loans	1,036,9	189,2	352,3	34.0%
Overdue Loans > 90 dias	972,7	1,262,2	289,5	29.9%
Credit at Risk(a) [a]	1,379,5	1,705,0	325,5	23.6%
Provisions for Credit	1,590,0	1,955,9	365,9	23.0%
(%)				
Overdue Loans / Gross Loans	2,45	3,42	0.97p.p.	
Overdue Loans >90 dias / Gross Loans	2,30	3,11	0.81 p.p.	
Credit at Risk [a]/ Gross Loans	3,26	4,20	0.94 p.p.	
Coverage of Overdue Loans	153,4	140,8	(12.6 p.p.)	
Coverage of Overdue Loans > 90 dias	163,5	155,0	(8.5 p.p.)	
Coverage of Credit at Risk	115,3	114,7	(0.6 p.p.)	
Provisions for Credit /Gross Loans	3,76	4,81	1.05 p.p.	

(a) According to BoP circular letter nº 99/2003/DSB

6.6.2 Results and Productivity

The table below summarises the main items of BES's income statement.

Activity Indicators

(eur million)

	Dec.10		Dec.11	Change	
	Stated	Restated		Absolute	Relative
Net Interest Income	662,4	662,4	653,9	(8,5)	(1.3%)
+ Fees and Commissions	498,6	498,6	483,7	(14,9)	(3.0%)
= Commercial Banking Income	**1,161,0**	**1,161,0**	**1,137,6**	**(23,4)**	**(2.0%)**
+ Capital Markets and Other Results	344,2	344,2	476,5	132,3	38.4%
= Banking Income	**1,505,2**	**1,505,2**	**1,614,1**	**108,9**	**7.2%**
- Operating Costs	861,9	819,1	781,1	(38,0)	(4.7%)
= Operating Income	**643,3**	**686,1**	**833,0**	**146,9**	**21.5%**
- Net Provisions	443,6	443,6	1,080,7	637,1	143.6%
Credit	276,0	276,0	521,2	245,2	88.8%
Securities	66,8	66,8	69,2	2,4	3.6%
Other	100,8	100,8	490,3	389,5	...
= Income before Taxes	**199,7**	**242,5**	**(247,7)**	**(490,2)**	**...**
- Taxes	(56,3)	(56,3)	(114,6)	(58,3)	...
= Net Income	**256,0**	**298,8**	**(133,1)**	**(431,9)**	**...**

Banking income, which translates income generation, increased by 7.2%, mainly underpinned by the increase in Capital Markets and Other Results due to gains on the purchase of issued subordinated debt.

The year's provision charge totalled EUR 1,080.7 million, representing a year-on-year increase of 143.6%, with provisions for credit reaching EUR 521.2 million (2010: EUR 276.0 million). Other provisions amounted to EUR 490.3 million, including a 337.5 million provision for the investment in BES Vida).

The fact that operating costs registered a higher reduction than commercial banking income allowed an improvement in the Cost to Income (ex-markets), which dropped by 1.9 pp year-on-year. The total cost to income rose by an expressive 10 pp, underpinned by a 7.2% increase in total banking income.

Productivity and Efficiency Indicators

(eur million)

	2010		2011		Chg. without one-offs /2010 restated
	Stated	Restated	Restated	Without one-offs	
Cost to Income	57.3%	54.4%	48.4%	44.4%	(10.0 pp)
Cost to Income (ex-markets)	74.2%	70.6%	68.7%	68.7%	(1.9 pp)

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 2011 is given below.

Spain Branch

BES Spain Branch maintained a positive performance in 2011, despite the economic instability in Spain. Main highlights are: (i) customer deposits grew by 22% YoY, while customer loans dropped by 15%, thus improving the branch's self-sufficiency in terms of funding; (ii) the international corporate activity support volume rose by 48%; (iii) the number of identified target clients, mostly in retail and private banking (+57%), increased by 49% year-on-year, which is ca. 6,000 more than in December 2010; and (iv) continued implementation of the prudent credit risk management policy, involving a reinforcement of provisions. As a result, credit spreads increased significantly, easing the pressure on the cost of liabilities due to strong competition within the Spanish banking system. With banking income growing by 2% and operating costs dropping by 1%, the gross income increased by 5% year-on-year, to EUR 48.4 million. The net profit for the year registered a considerable increase, totalling EUR 8.3 million (2010: EUR 5.7 million).

London Branch

BES London Branch concentrates its activity in wholesale banking in the European market. Business volume declined in 2011, reflecting on the one hand the adverse climate in the financial markets and the successive downgrades of the Portuguese Republic's ratings during the year, and on the other hand, the deleveraging strategy pursued by the Group. In view of these adverse conditions, the balance sheet was adjusted (YoY reductions of 36% in assets and 23% in the credit portfolio). As a result, commercial banking income declined, although still reaching EUR 45 million. In addition, the London branch has also been streamlining costs, namely through a reduction in the number of employees.

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 extreme prudence in business development and focus on risk monitoring and management, in line with the Group's current international strategy guidelines. The branch posted net income for the year of EUR 8.5 million, despite a sharp year-on-year reduction of 60% in the credit portfolio and consequent 35% reduction of the balance sheet, which are aligned to the deleveraging plan implemented.

7. Financial Analysis

7.1 Consolidated Financial Statements

Consolidated Balance Sheet as of 31 December 2011

(eur million)

	Dec.10 stated	Dec.10 restated	Dec. 11
ASSETS			
Cash and deposits at Central Banks	930,505	930,505	1,090,439
Deposits with banks	557,972	557,972	580,813
Financial assets held for trading	3,942,061	3,942,061	3,434,639
Financial assets at fair value through profit or loss	1,424,331	1,424,331	1,963,989
Available-for-sale financial assets	11,774,881	11,774,881	11,482,866
Loans and advances to banks	4,245,436	4,245,436	3,282,576
(of which of the European system of Central Banks)	(1,200,424)	(1,200,424)	-
Loans and advances to customers	50,829,123	50,829,123	49,043,382
(Provisions)	(1,776,988)	(1,776,988)	(2,167,444)
Held-to-maturity investments	2,458,800	2,458,800	1,541,182
Financial assets with repurchase agreements	-	-	-
Hedging derivatives	447,304	447,304	510,090
Non-current assets held for sale	574,550	574,550	1,646,683
Investment propreties	-	-	-
Proprety and equipment	809,037	809,037	851,678
Intangible assets	233,537	233,537	230,332
Investments in associates	961,908	961,908	806,999
Current income tax assets	99,396	99,396	28,692
Deferred income tax assets	283,367	540,686	712,157
Other assets	4,083,219	3,198,691	3,030,855
TOTAL ASSETS	**83,655,427**	**83,028,218**	**80,237,372**
LIABILITIES			
Deposits from central banks	7,964,820	7,964,820	10,013,713
(of which of the European System of Central Banks)	(5,218,306)	(5,218,306)	(8,786,204)
Financial liabilities helding for trading	2,088,007	2,088,007	2,125,253
Other financial liabilities at fair value through profit or loss	-	-	-
Deposits from banks	6,380,592	6,380,592	6,239,360
Due to customers	30,819,220	30,819,220	34,206,162
Debt securities issued	24,109,939	24,109,939	18,452,648
Financial liabilities to transferred assets	-	-	-
Hedging derivatives	228,944	228,944	238,633
Non core liabilities held for sale	5,411	5,411	140,950
Provisions	214,706	214,706	190,450
Current income tax liabilities	25,324	25,324	44,937
Deferred income tax liabilities	115,660	115,660	110,533
Capital instruments	-	-	-
Subordinated debt	2,291,833	2,291,833	961,235
Other liabilities	1,934,723	1,934,723	1,321,023
TOTAL LIABILITIES	**76,179,179**	**76,179,179**	**74,044,897**
EQUITY			
Share capital	3,500,000	3,500,000	4,030,232
Share premium	1,085,398	1,085,398	1,081,663
Other capital instruments	269,953	269,953	29,505
Treasury stock	-	-	(997)
Preference shares	600,000	600,000	211,913
Fair value reserve	(9,580)	(680,461)	(1,086,491)
Other reserves and retained earnings	978,547	978,547	1,446,961
Profit for the period attributable to equity holders of the bank	510,520	556,901	(108,758)
Prepaid dividends	-	-	-
Minority interests	541,410	538,701	588,447
TOTAL EQUITY	**7,476,248**	**6,849,039**	**6,192,475**
TOTAL LIABILITIES AND EQUITY	**83,655,427**	**83,028,218**	**80,237,372**

Chief Account

The Board of Directors

Consolidated Income Statement as of 31 December 2011

(Eur million)

	Dec.10 stated	Dec.10 restated	Dec. 11
Interest and similar income	3,727,898	3,727,898	4,084,862
Interest expense and similar charges	2,563,940	2,563,940	2,903,271
Net Interest Income	**1,163,958**	**1,163,958**	**1,181,591**
Dividend income	193,292	193,292	167,701
Fee and Commission income	886,808	886,808	888,646
Fee and Commission expense	117,475	117,475	130,546
Net gains from financial assets at fair value through profit or loss	(191,470)	(191,470)	(178,904)
Net gains from available-for-sale financial assets	364,436	364,436	(68,770)
Net gains from foreign exchange differences	46,731	46,731	(32,645)
Net gains/ (losses) from sale of other assets	34,032	34,032	(89,885)
Other operating income and expense	(13,634)	(13,634)	357,803
Operating income	**2,366,678**	**2,366,678**	**2,094,991**
Staff costs	628,320	581,870	587,475
General and administrative expenses	441,057	441,057	433,753
Depreciation and amortisation	100,092	100,092	107,926
Provisions impairment net of reversals	49,343	49,343	6,860
Loans impairment net of reversals	351,809	351,809	600,616
Impairment on other financial assets net of reversals	76,332	76,332	73,251
Impairment on other assets net of reversals	56,135	56,135	167,602
Negative consolidation differences	-	-	-
Equity accounted earnings	37,175	37,175	(175,231)
Net income before income tax and minorities	**700,765**	**747,215**	**(57,723)**
Income tax			
Current tax	59,673	59,673	72,147
Deferred Tax	(15,899)	(15,899)	(133,666)
Net income	**656,991**	**703,441**	**3,796**
ow: profit after taxes of discontinued operations	(9,036)	(9,036)	(3,428)
Minority interests	146,471	146,540	112,554
Consolidated net income for the period	**510,520**	**556,901**	**(108,758)**

Chief Account

The Board of Directors

Individual Balance Sheet as of December 31 2011

(eur thousand)

	31.12.2011				
	Amount before provisions, impairmentand and depreciations	Provisions, impairmentand, depreciations	Net amount	Dec. 10 stated	Dec. 10 restated
ASSETS					
Cash and deposits at Central Banks	481,371	-	481,371	488,677	488,677
Deposits with banks	341,698	-	341,698	262,986	262,986
Financial assets held for trading	1,783,039	-	1,783,039	2,077,134	2,077,134
Financial assets at fair value through profit or loss	1,969,331	-	1,969,331	1,780,171	1,780,171
Available-for-sale financial assets	14,404,596	129 329	14,275,267	12,094,262	12,094,262
Loans and advances to banks	7,929,015	190	7,928,825	8,472,098	8,472,098
Loans and advances to customers	40,638,356	1 522 469	39,115,887	41,095,813	41,095,813
Held-to-maturity investments	862,036	31 959	830,077	1,669,268	1,669,268
Repurchase agreements	-	-	-	-	-
Derivatives for risk management purposes	487,923	-	487,923	499,544	499,544
Non-current assets held for sale	948,261	180 519	767,742	529,586	529,586
Investment propreties	-	-	-	-	-
Proprety and equipment	1,104,215	732 268	371,947	379,541	379,541
Intangible assets	618,102	499 860	118,242	120,190	120,190
Investments in associates	2,205,645	450 937	1,754,708	1,776,600	1,776,600
Current income tax assets	1,872	-	1,872	77,669	77,669
Deferred income tax assets	799,538	-	799,538	403,621	660,764
Other assets	3,097,432	38 258	3,059,174	4,236,713	3,350,088
TOTAL ASSETS	**77,672,430**	**3 585 789**	**74,086,641**	**75,963,873**	**75,334,391**
LIABILITIES					
Deposits from central banks	9,232,202	-	9,232,202	7,391,791	7,391,791
Financial liabilities helding for trading	1,605,217	-	1,605,217	1,658,661	1,658 661
Other financial liabilities at fair value through profit or loss	-	-	-	-	-
Deposits from banks	11,139,698	-	11,139,698	13,565,577	13,565 577
Due to customers	31,179,373	-	31,179,373	26,591,014	26,591,014
Debt securities issued	10,163,659	-	10,163,659	14,054,753	14,054,753
Financial liabilities to transferred assets	2,951,364	-	2,951,364	2,043,754	2,043,754
Derivatives for risk management purposes	155,741	-	155,741	277,407	277,407
Non core liabilities held for sale	-	-	-	-	-
Provisions	581,105	-	581,105	628,489	628,489
Current income tax liabilities	15,080	-	15,080	2,871	2,871
Deleted income tax liabilities	123,794	-	123,794	154,794	154,794
Equity instruments	-	-	-	-	-
Subordinated debt	896,185	-	896,185	2,504,508	2,504,508
Other liabilities	871,741	-	871,741	832,674	832,674
TOTAL LIABILITIES	**68,915,159**	**-**	**68,915,159**	**69,706,293**	**69,706,293**
Equity					
Share capital	4,030,232	-	4,030,232	3,500,000	3,500,000
Share premium	1,076,522	-	1,076,522	1,080,257	1,080,257
Other equity instruments	244,502	-	244,502	868,193	868,193
Treasury stock	(997)	-	(997)	-	-
Fair value reserve	(809,027)	-	(809,027)	8,241	(664,048)
Other reserves and retained earnings	763,339	-	763,339	544,892	544,892
Profit for the year	(133,089)	-	(133,089)	255,997	298,804
Dividens paid	-	-	-	-	
TOTAL EQUITY	**5,171,482**	**-**	**5,171,482**	**6,257,580**	**5,628,098**
TOTAL LIABILITIES AND EQUITY	**74,086,641**	**-**	**74,086,641**	**75,963,873**	**75,334,391**

Chief Account

The Board of Directors

Income Statement as of December 31 2011

(eur thousand)

	Dec.10 stated	Dec.10 restated	Dec. 11
Interest and similar income	2,698,091	2,698,091	2,966,191
Interest expense and similar charges	2,035,732	2,035,732	2,312,253
Net Interest Income	**662,359**	**662,359**	**653,938**
Dividend income	319,083	319,083	380,480
Fee and Commission income	626,386	626,386	625,686
Fee and Commission expense	146,407	146,407	155,934
Net gains from financial assets at fair value through profit or loss	(282,351)	(282,351)	(309,522)
Net gains from available-for-sale financial assets	330,410	330,410	16,234
Net gains from foreign exchange differences	(15,860)	(15,860)	254
Net gains from sale of other assets	(12,101)	(12,101)	(49,345)
Other operating income and expense	23,600	23,600	423,660
Operating Income	**1,505,119**	**1,505,119**	**1,585,451**
Staff costs	435,286	392,479	372,815
General and administrative expenses	344,918	344,918	322,199
Depreciation and amortisation	81,687	81,687	86,039
Provisions impairment net of reversals	17,406	17,406	(19,091)
Loans impairment net of reversals	301,992	301,992	537,861
Impairment on other financial assets net of reversals	66,830	66,830	61,188
Impairment on other assets net of reversals	57,450	57,450	500,785
Net income before tax	**199,550**	**242,357**	**(276,345)**
Income tax			
Current tax	5,744	5,744	4,278
Deferred tax	(62,191)	(62,191)	(147,534)
Net income	**255,997**	**298,804**	**(133,089)**
ow: net income after discontinued operations	(12,956)	(12,956)	(4,719)

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, 2010 and 2011 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, 2010 and 2011 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in the European Union and transposed into Portuguese law through Decree-Law no. 35 /2005 of February 17th;

(iii) to the extent of their knowledge the financial statements referred to 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 29th, 2012;

(iv) the annual report describes faithfully the evolution of the businesses, the performance and the financial position of BES and BES Group in 2011, 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 2011 related exclusively to transactions carried out within the scope of its Variable Remuneration Plan Based on Financial Instruments ("PRVIF"), which forms an integral part of the remuneration policy of the members of the Executive Committee of Banco Espírito Santo approved by the General Meeting of April 6th, 2010.

Own Shares transactions

	Nº of Shares	Price (Eur)	Total (Eur thousand)
Balance as of December 31, 2010	-	-	-
Purchases	340,475	2,909	996
Balance as of December 31, 2011	342,475	2,909	996

This Plan is described in detail in the attached Notes to the Financial Statements.

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 company's net loss of the year, amounting to EUR 133,089,418.85 be allocated to the balance sheet item "Other reserves and retained earnings".

8.4 Reading guide to sustainability information

Information on BES Group's sustainability management and performance can be found in the 2011 Annual Report, the Sustainability Brochure and the sustainability section of the company's website. This information is reported in accordance with the Global Reporting Initiative (GRI)'s guidelines on sustainability reporting (version 3.1, third generation), and the principles of standard AA1000APS. The report was prepared for level A+ and benefited from assurance by KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., an independent entity, according with the principles laid down by ISAE 3000 (International Standard on Assurance Engagements 3000).

For additional information on the scope of the Global Reporting Initiative G3.1 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 economic) and this entity's Financial Services Sector Supplement, except those that, by their nature or content, have been considered as lacking relevance for BES Group's activity.

This judgment was based on a permanent dialogue with the most relevant stakeholders for BES Group, namely the shareholders, regulators, clients, employees and investors, which have also benefited from targeted communication 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, the loyalty and dedication of its Employees and the cooperation given by the governmental and supervision authorities.

Lisbon, February 29th, 2012
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
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Feixial de Goes
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
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca
Antônio Bornia
Marc Olivier Tristan Oppenheim
Michel Jacques Mathieu
Vincent Claude Pacaud

Appendices

The Sustainability Accounts

Workforce

	2006	2007	2008	2009	2010	2011
BES Group total employees (*)	8,428	8,952	9,431	8,902	9,858	9,863
Total Employees (Human Resources information scope)	8,804	8,115	8,389	8,155	8,394	8,528

(*) employees with permanent and fixed term contracts

Location (no. of Employees)

	2006	2007	2008	2009	2010	2011
Europe	7,883	8,306	8,828	8,104	8,530	8,413
America	255	280	160	352	384	375
Africa	273	349	424	427	923	1,047
East	17	17	19	19	21	28

Labour Contract (no. of Employees)

	2006	2007	2008	2009	2010	2011
Permanent	7,500	7,051	7,276	7,451	7,762	7,992
Fixed term	928	696	731	462	406	352
Temporary	315	232	180	178	179	149
Traineeship	61	136	202	64	47	35
Function (no. of Employees)						
Management	718	766	813	937	1,006	1,038
Head of Department	1,208	911	919	915	994	930
Specific	3,240	3,229	3,397	3,259	3,372	3,558
Administrative	3,518	3,155	2,995	2,930	2,901	2,888
Auxiliary	120	125	110	114	121	114
Continent (no. of Employees)						
Europe	-	7,572	7,653	7,521	7,681	7,749
America	-	148	158	182	202	191
Africa	-	367	423	452	511	588
Healthcare (no. of Employees)						
Medical exams	3,869	4,029	3,802	3,999	3,813	4,561
Medical acts	10,062	9,988	10,580	10,408	11,116	11,428
Nursing acts	4,080	4,136	4,135	4,025	6,519	5,483
Total	**18,011**	**18,153**	**18,517**	**18,432**	**21,448**	**21,462**
Employees covered by Collective Wage Agreement ("ACT") (no. of Employees)						
Total Employees	-	8,179	8,234	8,155	8,394	8,528
Employees covered by ACT	-	6,723	6,939	7,170	8,157	8,282
% of Employees covered by ACT	-	82.2%	84.3%	87.9%	97.18%	97.1%
Unionised Employees (no. of Employees)						
Total Employees	-	8,179	8,234	8,155	8,394	8,528
Unionised Employees	-	6,710	6,715	6,052	6,923	6,472
% of Unionised Employees	-	82%	81.6%	74.2%	82.48%	75.9%
Absenteeism (%)						
Lost Days Rate	-	0.2	0.4	0.3	0.23%	0.1
Absenteeism Rate (with maternity)	-	3.8	3.5	3.8	3.56%	4
Absenteeism Rate (%) (without maternity) *						
Women	-	-	-	-	3	3.5
Men	-	-	-	-	1.5	2.2
Total	**-**	**-**	**-**	**-**	**2.2**	**2.8**

(*) 2010 does not include Angola

Breakdown of Employees by gender and age according to professional categories (%)

	2006	2007	2008	2009	2010	2011
Management						
Women	-	25.1	26.1	28.1	29.6	29.2
Men	-	74.9	73.9	71.9	70.4	70.8
< 30 years	-	2.1	1.5	1.92	2	2
30 to 50 years	-	83.3	84.5	82.69	81.2	80.3
> 50 years	-	14.6	14	15.38	16.7	17.6
Heads of Department						
Women	-	32.4	32.3	34	35.5	36.6
Men	-	67.6	67.7	66	64.5	63.4
< 30 years	-	6.6	4.8	4.4	5.1	2.9
30 to 50 years	-	83.2	84.8	84.2	82.5	82.7
> 50 years	-	10.2	10.4	11.4	12.4	14.4
Specific						
Women	-	45.8	46.4	48	48.3	47.4
Men	-	54.2	53.6	52	51.7	52.6
< 30 years	-	28.5	29.4	24.5	24.6	21.3
30 to 50 years	-	64.3	63.5	67.1	66.5	69.2
> 50 years	-	7.1	7.1	8.4	8.9	9.5
Administrative						
Women	-	51.5	50.6	50.4	49.9	49.5
Men	-	48.5	49.4	49.6	50.1	50.5
< 30 years	-	26.0	22.6	18.9	19.6	16.6
30 to 50 years	-	57.2	57.3	58.2	55.7	58.2
> 50 years	-	16.8	20.1	23.0	24.7	25.2
Auxiliary						
Women	-	40.0	45.5	44.7	41.3	47.4
Men	-	60.0	54.5	55.3	58.7	52.6
< 30 years	-	11.2%	12.7	19.1	19.8	27.2
30 to 50 years	-	35.2%	27.8	25.5	37.1	26.3
> 50 years	-	53.6%	60	55.5	42.9	46.5

Staff Turnover (%)

	Europe						America						Africa						BES Group					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Women	7.8	7.8	16.7	9.5	10.1	7.0	23.5	23.5	33.3	28.1	21.7	68.3	0.144	14.4	26.2	36.8	49.2	30.2	8.5	8.5	17.4	11.5	12.9	9.7
Men	9.1	9.1	13.6	8.1	9.0	8.8	34.4	34.4	28.4	36.0	24.1	61.8	0.183	18.3	23.3	41.5	33.7	29.3	10.3	10.3	14.5	10.5	10.9	11.7
< 30 years	-	10.5	9.1	10.5	5.6	30.8	-	22.7	25.9	22.7	16.8	120.4	-	26.4	19.1	32.1	29.4	38.6	-	11.5	9.9	6.8	7.4	36.6
30 to 50 years	-	6.4	5.5	6.4	3.8	5.4	-	30.4	19.6	30.4	6.4	43.2	-	6.4	5.4	7.1	11.7	20.6	-	7.1	5.8	3.9	4.4	7.0
> 50 years	-	0.3	0.4	0.3	0.1	1.6	-	4.9	0.6	4.9	0.0	58.3	-	0.0	0.0	0.0	0.2	9.1	-	0.4	0.4	0.2	0.1	2.1

(*) BES Group: Europe – BES Portugal, BES Açores, BESI Portugal, Banco Best, ESAF, BES Espanha, BESI Espanha
America – BESI Brasil
Africa – BES Angola

Average no. of Training Hours per Employee

	Europe						America						Africa						BES Group					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Management	-	26.1	55.9	11.7	19.1	13.9	-	7.7	2.6	34.0	17.7	80.1	n.a.	n.a.	1.1	1.0	1.1	11.8	15.0	26.7	29.9	12.0	18.2	19.3
Heads of Department	-	19.5	33.0	37.3	63.7	36.5	-	32.4	16.5	77.8	46.0	0.0	n.a.	n.a.	1.0	3.9	5.8	17.2	12.0	21.2	26.1	37.8	58.6	35.3
Specific	-	52.5	69.8	37.5	44.0	35.4	-	78.8	93.2	100.0	97.0	109.1	n.a.	n.a.	0.4	0.9	4.7	14.3	125.0	56.4	52.1	36.1	42.1	34.8
Administrative	-	38.8	43.9	22.6	35.8	26.3	-	11.7	36.0	32.0	16.0	106.5	n.a.	n.a.	1.9	3.8	4.4	29.5	127.0	39.2	38.8	22.2	35.1	26.7
Auxiliary	-	0.2	0.8	11.7	0.0	220.3	-	60.0	240.0	384.0	204.0	0.0	n.a.	n.a.	0.0	0.0	1.0	0.0	-	8.5	18.0	17.6	8.8	166.2

Average no. of Formation Hours per Employee

	Europe	
	2010	2011
Women	42.0	32.1
Men	34.8	31.8
Total	**38.1**	**32.0**

Promotions (no. of Employees)

	2006	2007	2008	2009	2010	2011
Change of function	122	195	126	81	83	74
Merit	1,175	1,402	1,295	665	834	943
Seniority	166	171	131	175	197	100
Total no. of Employees Promoted	**1,463**	**1,768**	**1,552**	**921**	**1,114**	**1,117**

Performance Assessment

	2006		2007		2008		2009		2010		2011	
Number of Employees who received information about performance assessment	-	-	6,711	82%	6,596	80%	6,777	83%	6,948	83%	7,450	87%
Number of Employees who receive information about career management	-	-	5,982	73%	6,067	74%	6,201	76%	6,821	81%	7,341	86%

Performance Evaluation

	Europe	
	2010	2011
Women	78%	88%
Men	76%	87%

Loans Granted to Employees

(eur million)

	2006	2007	2008	2009	2010	2011
Mortage	68,500	84,461	77,505	68,185	59,183	46,726
Acquisition of consumer goods	22,888	18,746	19,074	32,961	29,171	15,184
Social Support	199	382	1,068	2,719	2,702	1,299

	2010*		2011	
	Women	Men	Women	Men
Employees who benefire from paternity / maternity leave	377		485	
Employees who returned to work after paternity / maternity leave	232	145	295	190
Employees who returned to work after leave and are still employed after 12 months in work	232	145	290	189

(*) Angola and Cape Verde not included

Stakeholders - Value Creation

(Eur million)

	2007	2008	2009	2010	2011
Shareholders (dividends)	240.0	80.0	163.0	140.0	-
Employees (remuneration and formation)	502.1	526.0	565.9	628.3	587,5
Clients (loans)	43,161.0	48,198.0	50,531.0	52,606.0	51,211,0
Suppliers (general administratives costs)	378,8	402,6	402,6	441,1	433,8
Community (donations)	4.0	3.2	4.0	4.8	3.3
State (taxes)	135.4	152.5	109.8	43.7	-

Environmental

(Eur million)

	2008	2009	2010	2011	10/11
Energy [1]					
Total electricity consumption (GJ)	210,389.00	216,959.45	218,751.89	206,004.51	-5.83%
Total electricity consumption (kwh)	58,441,425.00	60,266,513.00	60,764,414.16	57,223,474.01	-5.83%
Data Centre electricity consumption (kwh)	8,809,344.00	9,464,979.00	11,054,623.00	11,673,820.00	5.60%
Electricity consumption (kwh/Employee) [2]	7,959.00	8,194.00	7,786.62	7,299.62	-6.25%
Natural gas consumption (GJ)	373.00	887.25	740.30	495.96	-33.01%
Natural gas consumption (N.m^3)	9,555.00	22,750.00	18,982.00	13,150.00	-30.72%
Butane gas consumption (Kg)	7,290.00	4,860.00	3,105.00	675.00	-78.26%
Butane gas consumption (GJ)	345.00	229.56	146.66	31.88	-78.26%
Transport [1]					
No. of vehicles	1,085.00	1,154.00	1,212.00	1,233.00	1.73%
Fuel (GJ)	77,948.00	72,028.00	76,774.92	87,570.50	14.06%
No. of plane trips	2,874.00	3,090.00	3,356.00	1,122.00	-66.57%
Water [1]					
Water consumption (m^3)	101,514.00	96,927.00	99,105.00	96,729.00	-2.40%
Water consumption per employee (m^3/employee) [3]	16.00	14.00	14.48	14.39	-0.62%
Emission of greenhouse gases (tCO_2e) [1]					
Emissions from trips in company cars	3,421.00	3,501.00	3,773.00	5,861,00	55.34%
Emissions of fluorinated gases from air conditioning equipment	1,477.00	1,447.00	1,447.00	1,447,00	0.00%
Emissions from natural gas kitchen equipment *	41.00	63.00	49.00	30,00	-38.78%
Emissions from emergency generators	31.00	0.00	0.00	40,00	
Direct emissions (Scope 1)	**4,940.00**	**5,011.00**	**5,269.00**	**7,378,00**	**40.03%**
Emissions from the production of electricity purchased	22,454.00	20,561.00	13,975.00	13,319,00	-4.69%
Indirect emissions (Scope 2)	**22,454.00**	**20,561.00**	**13,975.00**	**13,319,00**	**-4.69%**
Total Scope 2 standardised	22,128.00	23,043.00	23,233.00	20,650,00	-11.12%
Total (scope 1 and 2)	**27,394.00**	**25,572.00**	**19,244.00**	**20,697,00**	**7.55%**
Total (Scope 1 and 2) standardised **	**27,068.00**	**28,054.00**	**28,502.00**	**28,028,00**	**-1.66%**
Emissions from Employees' home/work daily trips / business trips by plane ***	2,164.00	3,190.00	2,511.00	1,299,00	-48.27%
Emissions from Employees' home/work daily trips	7,090.00	6,932.00	6,945.00	8,186,00	17.87%
Indirect emissions (Scope 3)	**9,254.00**	**10,122.00**	**9,456.00**	**9,485,00**	**0.31%**
Consumption of Materials (paper and other consumables) [4]					
White paper for internal use (tonnes)	441.25	480.44	416.73	410.64	-1.46%
White paper for internal use (no. of reams/Employee)	24.92	27.60	23.51	23.50	-0.04%
Recycled paper for internal use (tonnes)	16.44	9.86	17.68	7.44	-57.92%
Recycled paper for internal use (no. of reams/Employee)	0.93	0.55	1.00	0.43	-57.31%
Forms - printing & finishing (tonnes)	412.83	384.43	300.53	246.82	-17.87%
Forms - printing & finishing (no. of reams)	165,785.00	154,387.00	120,692.85	99,122.91	-17.87%
Consumables used (Units)	38,252.00	50,405.00	47,356.00	44,955.00	-5.07%
Waste Management [1]					
Paper sent for recycling (tonnes)	343.71	478.31	289.18	224.17	-22.48%
Cardboard sent for recycling (tonnes)	54.24	61.35	57.11	73.43	28.58%
Consumables collected (Units)	6,545.00	4,023.00	22,860.00	21,756.60	-4.83%

1) BES Portugal
2) BES Portugal, does not include Data Center
3) BES Portugal, does not include BES Arte e Finança
4) BES PT, BAC, BEST, ESAF, BESI
* Values recalculated due to new accounting for greenhouse gas emissions
** Value obtained through an emission factor corresponding to the average of all the emission factors of time series considered
*** Values recalculated due to new emission factors and a new methodology to classify the types of flights

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental
Av. Praia da Vitória, 71 - A, 11º
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 Espírito Santo, S.A.

Introduction

1. We were engaged by the Executive Board of Directors of Grupo 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 2011.

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 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 the applicable ethical requirements, including independency requirements, and that the work is planned and performed to obtain limited assurance if nothing came to our attention that causes us to conclude that the sustainability information included in Annual Report for the year ended 31 December 2011, is not free of material misstatement.

Scope

4. A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a firma portuguesa membro da rede KPMG, composta por firmas independentes afiliadas da KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG & Associados - S.R.O.C., S.A. Capital Social: 2.840.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 9093

Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 078

- Inquiries of management to gain an understanding of GBES processes for determining the material issues for GBES key stakeholders groups;
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues applied, and the implementation of these across the business areas;
- Interviews with relevant staff, at 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 determine 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 if it is in line 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. Consequently, it does not allow us to obtain the assurance that we would become aware of all the important matters that can be identified in an audit or in a work of reasonable assurance. As such, we do not express an audit opinion or a conclusion of reasonable assurance of reliability.

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 2011 is not presented fairly, in all material respects with:

    - The alignment of GBES with the principles of inclusiveness, materiality and response of AA1000APS (2008); and
    - The compliance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative (GRI) as described in "Methodology 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 reporting to GBES those matters for which we were engaged 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, 29th February 2012

KPMG & Associados,
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
representada por
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes (ROC n.º 1131)

Consolidated Financial Statements and Notes to the Financial Statements

These financial statements are a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.

GRUPO BANCO ESPIRITO SANTO

1 Consolidated Financial Statements and Notes to the Financial Statement

Consolidated Income Statement for the Years ended 31 December 2011 and 2010

(in thousands of euro)

	Notes	31.12.2011	31.12.2010 Restated
Interest and similar income	5	4,084,862	3,727,898
Interest expense and similar charges	5	2,903,271	2,563,940
Net interest income		1,181,591	1,163,958
Dividend income		167,701	193,292
Fee and commission income	6	888,646	886,808
Fee and commission expense	6	(130,546)	(117 475)
Net gains from financial assets at fair value through profit or loss	7	(178,904)	(191,470)
Net gains from available-for-sale financial assets	8	(68,770)	364,436
Net gains from foreign exchange differences	9	(32,645)	46,731
Net gains from sale of other financial assets	10	(91,680)	(12,369)
Other operating income and expense	11	357,803	(13,634)
Operating income		2,093,196	2,320,277
Staff costs	12	587,475	581,870
General and administrative expenses	14	433,753	441,057
Depreciation and amortisation	26 and 27	107,926	100,092
Provisions net of reversals	34	6,860	49,343
Loans impairment net of reversals	22	600,616	351,809
Impairment on other financial assets net of reversals	20, 21 and 23	73,251	76,332
Impairment on other assets net of reversals	25, 27 and 29	167,602	56,135
Operating expenses		1,977,483	1,656,638
Gains on disposal of investments in subsidiaries and associates	1	1,795	46,401
Share of profit of associates	28	(175,231)	37,175
Profit before income tax		(57,723)	747,215
Income tax			
Current tax	35	72,147	59,673
Deferred tax	35	(133,666)	(15,899)
		(61,519)	**43,774**
Profit for the year		**3,796**	**703,441**
Attributable to equity holders of the Bank		(108,758)	556,901
Attributable to non-controlling interests	39	112,554	146,540
		3,796	**703,441**
Basic Earnings per Share (in Euro)	15	(0.04)	0.45
Diluted Earnings per Share (in Euro)	15	(0.04)	0.45

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

Consolidated Statement of Comprehensive Income for the Years Ended 31 December 2011 and 2010

(in thousands of euro)

	31.12.2011	31.12.2010 Restated
Profit for the year		
Attributable to equity holders of the Bank	(108,758)	556,901
Attributable to non- controlling interests	112,554	146,540
	3,796	703,441
Other comprehensive income for the year		
Long-term benefit	44,015	(91,918)
Exchange differences	11,981	16,621
Income Taxes	(15,805)	10,342
Other comprehensive income appropriate from associates	(8,053)	-
	32,138	(64,955)
Available-for-sale financial assets		
Gains/ (losses) arising during the year	(631,336)	(45,535)
Reclassification adjustments for gains/ (losses) included in the profit or loss	126,561	(334,634)
Deferred taxes	69,226	64,787
	(435,549)	(315,382)
Total comprehensive income for the year	**(399,615)**	**323,104**
Attributable to equity holders of the Bank	**(523,227)**	**174,642**
Attributable to non-controlling interests	**123,612**	**148,462**
	(399,615)	**323,104**

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

Consolidated Balance Sheet as at 31 December 2011 and at 31 December 2010

(in thousands of euro)

	Notes	31.12.2011	31.12.2010 Restated	01.01.2010 Restated
Assets				
Cash and deposits at central banks	16	1,090,439	930,505	2,192,317
Deposits with banks	17	580,813	557,972	610,574
Financial assets held for trading	18	3,434,639	3,942,061	4,459,484
Other financial assets at fair value through profit or loss	19	1,963,989	1,424,331	1,002,301
Available-for-sale financial assets	20	11,482,866	11,774,881	8,531,600
Loans and advances to banks	21	3,282,576	4,245,436	7,997,807
Loans and advances to customers	22	49,043,382	50,829,123	48,978,847
Held-to-maturity investments	23	1,541,182	2,458,800	2,541,829
Derivatives for risk management purposes	24	510,090	447,304	455,115
Non-current assets held for sale	25	1,646,683	574,550	407,585
Other tangible assets	26	851,678	809,037	658,773
Intangible assets	27	230,332	233,537	137,885
Investments in associates	28	806,999	961,908	793,815
Current income tax assets		28,692	99,396	20,929
Deferred income tax assets	35	712,157	540,686	431,831
Other assets	29	3,030,855	3,198,691	2,481,407
Total Assets		**80,237,372**	**83,028,218**	**81,702,099**
Liabilities				
Deposits from central banks	30	10,013,713	7,964,820	3,817,643
Financial liabilities held for trading	18	2,125,253	2,088,007	1,561,143
Deposits from banks	31	6,239,360	6,380,592	6,895,720
Due to customers	32	34,206,162	30,819,220	25,446,450
Debt securities issued	33	18,452,648	24,109,939	33,101,099
Derivatives for risk management purposes	24	238,633	228,944	253,148
Non-current liabilities held for sale	25	140,950	5,411	21,609
Provisions	34	190,450	214,706	179,851
Current income tax liabilities		44,937	25,324	133,616
Deferred income tax liabilities	35	110,533	115,660	79,216
Subordinated debt	36	961,235	2,291,833	2,639,071
Other liabilities	37	1,321,023	1,934,723	1,229,751
Total Liabilities		**74,044,897**	**76,179,179**	**75,358,317**
Equity				
Share capital	38	4,030,232	3,500,000	3,500,000
Share premium	38	1,081,663	1,085,398	1,085,399
Other equity instruments	38	29,505	269,953	-
Treasury stock	38	(997)	-	(25,083)
Preference shares	38	211,913	600,000	600,000
Other reserves, retained earnings and other comprehensive income	39	360,470	298,086	902,088
Profit for the year attributable to equity holders of the Bank		(108,758)	556,901	-
Total Equity attributable to equity holders of the Bank		**5,604,028**	**6,310,338**	**6,062,404**
Non-controlling interests	39	588,447	538,701	281,378
Total Equity		**6,192,475**	**6,849,039**	**6,343,782**
Total Equity and Liabilities		**80,237,372**	**83,028,218**	**81,702,099**

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

Consolidated Statement of Changes in Equity for the Years Ended 31 December 2011 and 2010

(in thousands of euro)

	Capital	Share premium	Other equity instruments	Treasury stock	Preference shares	Other reserves, retained earnings and other comprehensive income: Fair value reserve	Other reserves, retained earnings and other comprehensive income: Other reserves, retained earnings and other comprehensive income	Other reserves, retained earnings and other comprehensive income: Total	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 2009 (Restated)	3,500,000	1,085,399	-	(25,083)	600,000	300,833	79,141	379,974	522,114	6,062,404	281,378	6,343,782
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	(310,413)	-	(310,413)	-	(310,413)	(4,969)	(315,382)
Actuarial deviations, net of taxes	-	-	-	-	-	-	(77,960)	(77,960)	-	(77,960)	(599)	(78,559)
Exchange differences, net of taxes	-	-	-	-	-	-	6,114	6,114	-	6,114	7,490	13,604
Profit for the year	-	-	-	-	-	-	-	-	556,901	556,901	146,540	703,441
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**(310,413)**	**(71,846)**	**(382,259)**	**556,901**	**174,642**	**148,462**	**323,104**
Costs related to capital increase	-	(1)	-	-	-	-	-	-	-	(1)	-	(1)
Issue of other capital instruments (See Note 38)	-	-	269,953	-	-	-	-	-	-	269,953	50,000	319,953
Transfer to reserves	-	-	-	-	-	-	358,936	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)	-	(33,480)
Share based payment scheme, net of taxes (see Note 13)	-	-	-	-	-	-	366	366	-	366	-	366
Settlement of share based payment scheme (see Note 12 and 38)	-	-	-	25,083	-	-	(22,131)	(22,131)	-	2,952	-	2,952
Other movements	-	-	-	-	-	-	(3,320)	(3,320)	-	(3,320)	3,575	255
Other changes in minority interest (see Note 39)	-	-	-	-	-	-	-	-	-	-	55,286	55,286
Balance as at 31 December 2010 (Restated)	3,500,000	1,085,398	269,953	-	600,000	(9,580)	307,666	298,086	556,901	6,310,338	538,701	6,849,039
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	(435,595)	-	(435,595)	-	(435,595)	46	(435,549)
Actuarial deviations, net of taxes	-	-	-	-	-	-	29,567	29,567	-	29,567	1,355	30,922
Other comprehensive income appropriate from associates							(8,053)	(8,053)	-	(8,053)	-	(8,053)
Exchange differences, net of taxes	-	-	-	-	-	-	(388)	(388)	-	(388)	9,657	9,269
Profit for the year	-	-	-	-	-	-	-	-	(108,758)	(108,758)	112,554	3,796
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**(435,595)**	**21,126**	**(414,469)**	**(108,758)**	**(523,227)**	**123,612**	**(399,615)**
Capital increase	530,232	(3,735)	(240,448)	-	(197,446)	-	54,673	54,673	-	143,276	(46,269)	97,007
- issue of 94 573 418 new shares	530,232	-	-	-	-	-	-	-	-	530,232	-	530,232
- exchance of equity instruments and preference shares	-	-	(240,448)	-	(197,446)	-	54,673	54,673	-	(383,221)	(46,269)	(429,490)
- Costs with capital increase, net of taxes	-	(3,735)	-	-	-	-	-	-	-	(3,735)	-	(3,735)
Purchase of preference shares (see Note 38)	-	-	-	-	(190,641)	-	50,975	50,975	-	(139,666)	-	(139,666)
Transactions with non-controlling interests	-	-	-	-	-	-	3,630	3,630	-	3,630	(10,102)	(6,472)
Transfer to reserves	-	-	-	-	-	-	409,946	409,946	(409,946)	-	-	-
Dividends on ordinary shares [(a)]	-	-	-	-	-	-	-	-	(146,955)	(146,955)	-	(146,955)
Dividends on preference shares, net of taxes [(b)]	-	-	-	-	-	-	(25,717)	(25,717)	-	(25,717)	-	(25,717)
Variations of treasury stock (see Note 38)	-	-	-	(997)	-	-	-	-	-	(997)	-	(997)
Interest of other equity instruments, net of taxes [(c)]	-	-	-	-	-	-	(15,478)	(15,478)	-	(15,478)	-	(15,478)
Other movements	-	-	-	-	-	-	(1,176)	(1,176)	-	(1,176)	-	(1,176)
Other changes in minority interest (see Note 39)	-	-	-	-	-	-	-	-	-	-	(17,495)	(17,495)
Balance as at 31 December 2011	4,030,232	1,081,663	29,505	(997)	211,913	(445,175)	805,645	360,470	(108,758)	5,604,028	588,447	6,192,475

(a) Corresponds to a dividend per share of euro 0.126 and euro 0.14 in 2011 and 2010, 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 38)

(c) Corresponds to a conditioned interest payable semi-annually and calculated based on an annual rate of 8.5% (amounts issued in euro) and 8.0% (amounts issued in U.S. dollars) related to perpetual bonds issued by BES (see Note 38)

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

Consolidated Cash Flow Statement for the Years Ended 31 December 2011 and 2010

(in thousands of euro)

	Notes	31.12.2011	31.12.2010
Cash flows from operating activities			
Interest and similar income received		3,891,906	3,554,852
Interest expense and similar charges paid		(2,911,344)	(2,432,654)
Fees and commission received		894,674	893,508
Fees and commission paid		(143,472)	(135,280)
Recoveries on loans previously written off		26,553	19,582
Contributions to pensions' fund		(92,467)	(58,027)
Cash payments to employees and suppliers		(1,088,677)	(940,989)
		577,173	**900,992**
Changes in operating assets and liabilities:			
Deposits with central banks		3,315,365	4,641,977
Financial assets at fair value through profit or loss		(173,894)	511,300
Loans and advances to banks		(290,655)	3,760,356
Deposits from banks		(171,308)	(531,821)
Loans and advances to customers		332,334	(2,113,843)
Due to costumers		3,313,699	5,224,421
Derivatives for risk management purposes		(142,821)	(84,390)
Other operating assets and liabilities		(746,285)	(1,226,270)
Net cash from operating activities before income tax		**6,013,608**	**11,082,722**
Income taxes paid		46,890	(246,432)
Net cash from operating activities		**6,060,498**	**10,836,290**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	1	(98,191)	(237,072)
Disposal of subsidiaries and associates	1	5,565	17,021
Dividends received		171,894	209,219
Acquisition of available-for-sale financial assets		(47,352,062)	(41,128,358)
Sale of available-for-sale financial assets		47,680,028	38,447,467
Held to maturity investments		394,549	63,461
Acquisition of tangible and intangible assets		(145,361)	(321,229)
Sale of tangible and intangible assets		507	790
Net cash from investing activities		**656,929**	**(2,948,701)**
Cash flows from financing activities			
Capital increase		(41,841)	-
Issue of other equity instruments		-	319,953
Proceeds from issue of bonds		9,095,624	11,143,731
Reimbursement of bonds		(14,422,787)	(19,652,853)
Proceeds from issue of subordinated debt		8,174	84,279
Reimbursement of subordinated debt		(989,458)	(440,071)
Treasury stock		(997)	2,952
Interest on other equity instruments		(21,801)	-
Dividends paid on ordinary shares		(146,955)	(163,178)
Dividends paid on preference shares		(25,717)	(33,480)
Net cash from financing activities		**(6,545,758)**	**(8,738,667)**
Net changes in cash and cash equivalents		**171,669**	**(851,078)**
Cash and cash equivalents at the beginning of the year		**1 341 403**	**2,161,089**
Effect of exchange rate changes on cash and cash equivalents		29,179	31,392
Net changes in cash and cash equivalents		171,669	(851,078)
Cash and cash equivalents at the end of the year		**1,542,251**	**1,341,403**
Cash and cash equivalents includes:			
Cash	16	278,179	306,203
Deposits at Central Banks	16	812,260	624,302
of which, restricted balances		(129,001)	(147,074)
Deposits with Banks	17	580,813	557,972
Total		**1,542,251**	**1,341,403**

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

NOTE 1 – Activity and Group Structure

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

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

BES is listed on the Euronext Lisbon. As at 31 December 2011, the Bank's subsidiary BES Finance, Ltd had 216 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 801 branches throughout Portugal (31 December 2010: 828), international branches in London, Spain, New York, Nassau, Cayman Islands, Cape Verde and Venezuela, a branch in the Madeira Free Zone and thirteen overseas representative offices.

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

a) Subsidiaries consolidated directly into the Bank:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
BANCO ESPÍRITO SANTO, SA (BES)	1937	-	Portugal	Commercial banking		
Banco Espírito Santo de Investimento, SA (BESI)	1993	1997	Portugal	Investment bank	100.00%	Full consolidation
Aman Bank for Commerce and Investment Stock Company	2003	2010	Libya	Commercial banking	40.00% [a)]	Full consolidation
Avistar, SGPS, SA	2009	2009	Portugal	Holding company	100.00%	Full consolidation
Espírito Santo Servicios, SA	1996	1997	Spain	Insurance	100.00%	Full consolidation
Espírito Santo Activos Financieros, SA	1988	2000	Spain	Asset management	95.00%	Full consolidation
Espírito Santo Vanguarda, SL	2011	2011	Spain	Services provider	100.00%	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	63.70%	Full consolidation
BESAACTIF Pensões - Sociedade Gestora de Fundos de Pensões, SA	2009	2009	Angola	Asset management - Pension funds	63.70%	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	99.99%	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	90.00%	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	Issue of preference shares and other securities	100.00%	Full consolidation
ES, Recuperação de Crédito, ACE (ESREC)	1998	1998	Portugal	Financing vehicle	99.15%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Holding company	71.66%	Full consolidation
Espírito Santo - Informática, ACE (ESINF)	2006	2006	Portugal	Services provider	81.28%	Full consolidation
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	Portugal	Services provider	86.71%	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	58.77%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	56.55%	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
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
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	18.57% [b)]	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, S.A.	2010	2010	Portugal	Motorway concession	18.57% [b)]	Equity method
UNICRE - Instituição Financeira de Crédito, S.A.	1974	2010	Portugal	Non-bank finance company	17.50% [b)]	Equity method
Ijar Leasing Argélie	2011	2011	Algeria	Leasing	35.00%	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	2006	Spain	Holding company	26.00%	Equity method
Salgar Investments	2007	2007	Spain	Services provider	41.69%	Equity method
Só Peso Restauração e Hotelaria,S.A.	2000	2007	Portugal	Restaurants	9.77% [b)]	Equity method
ESSI Comunicações SGPS, SA	1998	1998	Portugal	Holding company	100.00%	Full consolidation
ESSI SGPS, SA	1997	1997	Portugal	Holding company	100.00%	Full consolidation
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	65.40%	Full consolidation
Execution Holding, Ltd	2010	2010	United Kingdom	Holding company	65.40%	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	2008	2008	Poland	Services provider	33.00%	Equity method
Polish Hotel Capital SP	2008	2008	Poland	Services provider	33.00%	Equity method
Polish Hotel Management Company, SP	2008	2008	Poland	Services provider	25.00%	Equity method
Espirito Santo Investimentos, SA	1996	1999	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	85.00%	Full consolidation
Espírito Santo Serviços Financeiros DTVM, SA	2009	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 Participações, Ltda	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% [a)]	Full consolidation
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	38.69%	Equity method
Fundo BES Moderado	2011	2011	Brazil	Investment fund	57.68%	Full consolidation
Fundo BES Absolute Return	2002	2009	Brazil	Investment fund	44.25% [a)]	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
Moza Banco, SA	2008	2010	Moçambique	Commercial banking	25.10%	Equity method
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	**1992**	**1992**	**Portugal**	**Holding company**	**90.00%**	**Full consolidation**
Espírito Santo Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Asset management - investment funds	90.00%	Full consolidation
Espírito Santo International Management, SA	1995	1995	Luxembourg	Asset management - investment funds	89.82%	Full consolidation
Espírito Santo Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Asset management - investment funds	90.00%	Full consolidation
Espírito Santo Fundo de Pensões, SA	1989	1989	Portugal	Asset management - investment funds	90.00%	Full consolidation
Capital Mais - Assessoria Financeira, SA	1998	1998	Portugal	Asset management - investment funds	90.00%	Full consolidation
Espirito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Asset management - investment funds	44.10%	Equity method
Espírito Santo Gestão de Patrimónios, SA	1987	1987	Portugal	Asset management - investment funds	90.00%	Full consolidation
ESAF - Espírito Santo Participações Internacionais, SGPS, SA	1996	1996	Portugal	Asset management - investment funds	90.00%	Full consolidation
ESAF - International Distributors Associates, Ltd	2001	2001	British Virgin Islands	Asset management - investment funds	90.00%	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 fund	100.00%	Full consolidation
Yunit Serviços, SA	2000	2000	Portugal	Management of internet portals	33.33%	Equity method
FCR Espírito Santo Ventures Inovação e Internacionalização	2011	2011	Portugal	Venture capital fund	50.00%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Venture capital fund	20.00%	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**	**58.77%**	**Full consolidation**
Atlantic Ventures Corporation	2006	2006	USA	Holding company	58.77%	Full consolidation
Sousacamp, SGPS, SA	2007	2007	Portugal	Holding company	22.98%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Holding company	26.25%	Equity method
Outsystems, SA	2007	2007	Portugal	IT Services	17.21% b)	Equity method
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	IT Services	23.52%	Equity method
Multiwave Photonics, SA	2003	2008	Portugal	IT Services	12.20% b)	Equity method
Bio-Genesis	2007	2007	Brazil	Holding company	17.59% b)	Equity method
YDreams - Informática, SA	2000	2009	Portugal	IT Services	15.33% b)	Equity method
Fundo de Capital de Risco - ES Ventures III	**2009**	**2009**	**Portugal**	**Venture capital fund**	**56.55%**	**Full consolidation**
Atlantic Ventures III Corporation	2011	2011	USA	Holding company	56.55%	Full consolidation
Nutrigreen, SA	2007	2009	Portugal	Services provider	11.31% b)	Equity method
Advance Ciclone Systems, SA	2008	2009	Portugal	Treatment and elimination of residues	18.10% b)	Equity method
Watson Brown, HSM, Ltd	1997	2009	United Kingdom	Recycling rubber	15.59% b)	Equity method
Domática, Electrónica e Informática, SA	2002	2011	Portugal	IT Services	13.33% b)	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% b)	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% b)	Equity method
Rodi - Sinks & Ideas, SA	2006	2006	Portugal	Industry	24.81%	Equity method
Espírito Santo Activos Financieros, SA	**1988**	**2000**	**Spain**	**Asset management**	**95.00%**	**Full consolidation**
Espírito Santo Gestión, SA, SGIIC	2001	2001	Spain	Asset management	95.00%	Full consolidation
Espírito Santo Pensiones, S.G.F.P., SA	2001	2001	Spain	Asset management - pension funds	95.00%	Full consolidation
Espírito Santo Bank (ESBANK)	**1963**	**2000**	**USA**	**Commercial banking**	**99.99%**	**Full consolidation**
ES Financial Services, Inc.	2000	2000	USA	Brokerage	99.99%	Full consolidation
Tagide Properties, Inc.	1991	1991	USA	Real estate	99.99%	Full consolidation
Espírito Santo Representaciones	2003	2003	Uruguai	Representation office	99.99%	Full consolidation
ES Advisors, Inc.	2011	2011	USA	Investment consulting	99.99%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding company**	**71.66%**	**Full consolidation**
ES Concessions International Holding, BV	2010	2010	Netherlands	Holding company	71.66%	Full consolidation
Empark - Aparcamientos y Servicios, SA	1968	2009	Spain	Management of parking lots	15.92% b)	Equity method
Concesionaria Autopista Perote-Xalapa, CV	2008	2008	Mexico	Motorway concession	14.33%	Equity method
Ascendi Group SGPS, SA	2010	2010	Portugal	Motorway concession	28.66% b)	Equity method
SCUTVIAS - Autoestradas da Beira Interior, SA	1999	2010	Portugal	Motorway concession	15.93%	Equity method
Portvias - Portagem de Vias, SA	2010	2010	Portugal	Motorway concession	15.93% b)	Equity method
MRN - Manutenção de Rodovias Nacionais, SA	2010	2010	Portugal	Motorway concession	15.93% b)	Equity method
Auvisa - Autovia de los Viñedos, SA	2003	2010	Spain	Motorway concession	35.83% b)	Equity method

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

Additionally, in accordance with SIC 12, the Group consolidates special purpose entities, as follows:

	Established	Acquired	Headquartered	% economic interest	Consolidation method
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
Lusitano SME No.1 plc (*)	2006	2006	Ireland	100%	Full Consolidation
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full Consolidation
Lusitano Project Finance No.1, FTC (*)	2007	2011	Portugal	100%	Full Consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full Consolidation
Lusitano Leverage Finance No. 1 BV (*)	2010	2010	Netherlands	100%	Full Consolidation
Lusitano SME No.2 (*)	2010	2010	Portugal	100%	Full Consolidation
Lusitano Finance No. 3 (*)	2011	2011	Portugal	100%	Full Consolidation
IM BES Empresas 1 (*)	2011	2011	Spain	100%	Full Consolidation

(*) Entities set-up in the scope of securitisation transactions (See Note 43)

During the first quarter of 2011, the special purpose entity “Lusitano Project Finance No.1” was liquidated. The Group started to consolidate “Lusitano Project Finance No.1 FTC”.

As at 31 December 2011, the consolidation of these entities had the following impact on the Group’s accounts:

(in thousands of euro)

	31.12.2011	3.12.2010
Deposits at Central Banks	572,182	468,085
Financial assets held for trading	306,380	406,734
Due to costumers (net of impairment)	5,828,664	5,715,334
Debt securities issued	951,660	1,208,319

The main changes in the Group structure that occurred in 2011 are highlighted as follows:

Subsidiaries

- In December 2011, BES acquired an additional 30.70% of the capital of ES Concessões, by an amount of euro 25 500 thousand, increasing its shareholding to 71.66%;
- In December 2011, ESAF sold the entire share capital position it had in ESAF Alternative Asset Management, Ltd;
- In December 2011, ES Bank acquired 14.9% of ES Financial Services to Banque Privée Espirito Santo, becoming to hold the entire share capital of that entity;
- In December 2011, BES acquired 5% of ESAF – Espírito Santo Activos Financeiros, S.G.P.S. to Companhia de Seguros Tranquilidade, becoming to hold 90% of its share capital;
- In December 2011, BESI increased its participation in Execution Noble, becoming to hold 65.40% of its share capital.

Associates (see Note 28)

- In January 2011, BES ÁFRICA acquired 25.1% of Moza Banco, SA, a mozambican bank;
- In February 2011, following the capital increase of Watson Brown HSM, Ltd, FCR Ventures III Fund became to hold 27.57% of its share capital, and started to consolidate this entity under the equity method;
- In April 2011, BES sold the participation in Esumédica to Companhia de Seguros Tranquilidade, SA, originating a consolidated capital gain of euro 380 thousands;
- In May 2011, occurred the merger of Gespastor, SA in Espirito Santo Gestión, S.A.;
- In July and September 2011, ES Tech Ventures invested in the Funds FCR Espírito Santo Ventures Inovação e Internacionalização and Fundo Bem Comum, FCR, respectively, holding 50% and 20% of their capital, which started to be included in the Group’s Consolidation perimeter;
- In September 2011, BES sold the stake held in Europ Assistance to Companhia de Seguros Tranquilidade, SA, originating a consolidated gain of 110 thousand euros;
- In December 2011, it was set up the leasing company Ijar Leasing Algérie, under a partnership with Banque Exterieure d’ Algerie, being this entity held by Banque Exterieure d’Algerie in 65% and BES Group in 35%.

During the years ended 31 December 2011 and 2010, the movements referring to acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(in thousands of euro)

	31.12.2011						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal value	Other reimbursements (a)	Total	Gains/(losses) from sales/disposals
Subsidiaries							
ESAF - Espírito Santo Activos Financeiros, S.G.P.S.	13,189	-	13,189	-	-	-	-
ESAF - Alternative Asset Management, Ltd	-	-	-	(1,305)	-	(1,305)	1,305
Execution Noble	23,943	-	23,943	-	-	-	-
ES Concessões	808	24,692	25,500	-	-	-	-
ES Financial Services	1,979	-	1,979	-	-	-	-
	39,919	**24,692**	**64,611**	**(1,305)**	**-**	**(1,305)**	**1,305**
Associates							
BES Vida	-	62,500	62,500	-	-	-	-
Moza Banco	8,018	1,782	9,800	-	-	-	-
Watson Brown (b)	68	2,938	3,006	-	-	-	-
Ijar Leasing Algérie	12,361	-	12,361	-	-	-	-
Esumédica	-	-	-	-	-	-	380
Ascendi Group	-	4,969	4,969	-	-	-	-
Europ Assistance	-	-	-	(2,465)	-	(2,465)	110
Rua Bonita (c)	-	-	-	-	(818)	(818)	-
Global Active	-	87	87	-	-	-	-
FCR ES Ventures Inovação e Internacionalização	5,000	-	5,000	-	-	-	-
Fundo Bem Comum, FCR	500	-	500	-	-	-	-
Autopista Perote-Xalapa	-	1,622	1,622	-	-	-	-
Ydreams	-	352	352	-	-	-	-
Nutrigreen	-	-	-	-	(1,500)	(1,500)	-
Domática	1,000	-	1,000	-	-	-	-
	26,947	**74,250**	**101,197**	**(2,465)**	**(2,318)**	**(4,783)**	**490**
Total	**66,866**	**98,942**	**165,808**	**(3,770)**	**(2,318)**	**(6,088)**	**1,795**

(a) Capital increase and loans to companies
(b) Entity that became part of the Group's consolidation scope, previously recorded in the available-for-sale portfolio
(c) Entity that is no longer part of the Group's consolidation scope, due to the loss of significant influence, becoming to be recorded in the available-for-sale portfolio

(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**
Total	**394,921**	**63,581**	**458,502**	**(169,254)**	**(5,355)**	**(174,609)**	**46,401**

(a) Capital increase and loans to companies

NOTE 2 – Summary of Significant Accouting Principles

2.1. Basis of Preparation

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

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

The consolidated financial statements for year ended 31 December 2011 were prepared in accordance with the IFRS effective and adopted by the EU until 31 December 2011.

The accounting policies applied by the Group in the preparation of its consolidated financial statements for the year ended 31 December 2011 are consistent with the ones used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2010. However, as allowed under paragraph 93A fof IAS 19 "Employee Benefits", in 2011 the Group changed its accounting policy related to actuarial gains and losses determined in post employement benefits, becoming to recognise the actuarial differences under other comprehensive income, from the previous corridor method. The effect from the change in the accounting policy can be analised in Note 47.

Additionally, and as described in Note 48, in the preparation of the Consolidated Financial Statements as at 31 December 2011, the Group adopted the accounting standards issued by IASB and IFRIC interpretations, effective since 1 January 2011. The accounting policies adopted by the Group in the preparation of the Consolidated Financial Statements are in accordance with those described in that note. The adoption of these standards and interpretations had no material effect in the Group's Consolidated Financial Statements.

The accounting standards and interpretations recently issued but not yet effective can also be analysed in Note 48.

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 judgement 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 29 February 2012.

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 interim financial statements.

Subsidiaries

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

Accumulated losses of a subsidiary are attributed proportionally to the owners of the parent and to the non-controlling interest even if this results in non-controlling interest having a deficit balance.

In a business combination achieved in stages (step acquisition) where control is obtained, the Group remeasures its previously held non-controlling interest 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 interest 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.

Associates

Associates are entities over which the Group has significant influence over the company's financial and operating policies but not its control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors.

Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that significant influence ceases. 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.

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 associate 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, and independently of the percentage of the equity held.

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

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

Investment funds managed by the Group

As part of the asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over its activity based on the criteria established by SIC – 12. It is assumed that there is control over a fund when the Group holds more than 50% of the participation units.

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, in accordance with IFRS 3 – Business Combinations, 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 interest is 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 Bank.

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.

The recoverable amount corresponds to the higher of its fair value less costs to sell and its value in use. In determining value in use, estimated futures cash flows are discounted using a rate that reflects market conditions, time value and business risks.

Transactions with non-controlling interests

Acquisitions of non-controlling interest 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 a transaction. Any difference between the consideration paid and the amount of non-controlling interest acquired is accounted for as a movement in equity. Similarly, sales of non-controlling interest 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 interest in the consolidated financial statements is accounted for as a movement in equity.

Gains or losses on a dilution or on sale of a portion of an interest, 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 period using the exchange rates at the beginning of the period and at the balance sheet date are accounted for against reserves net of deferred taxes. The exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and at the balance sheet date are accounted for against reserves. When the entity is sold such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

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

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

2.3. Foreign Currency Transactions

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

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

2.4. Derivative Financial Instruments and Hedge Accounting

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

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

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

Derivatives traded in organised markets, namely futures and some options, are recognised as trading derivatives, being marked to market on a daily basis and the resulting gains or losses are recognised directly in the income statement. Once the fair value changes on these derivatives are settled daily through the margin accounts held by the Group, these derivatives do not present any fair value on the balance sheet. The margin accounts are included under the caption Other assets (see Note 29) and comprise the minimum collateral mandatory for open positions.

Hedge accounting

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

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

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

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

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

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

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

Embedded derivatives

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

2.5. Loans and Advances to Customers

Loans and advances to customers 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 24 includes a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.
The structured products acquired by the Group corresponding to financial instruments containing one or more embedded derivatives meet the above mentioned conditions, and, in accordance, are classified under the fair value through profit or loss category.

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

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

Initial recognition, initial measurement and derecognition

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

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

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

Subsequent measurement

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

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

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, net of any impairment losses recognised. The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Reclassifications between categories

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

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

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. Financial Guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument, namely the payment of principal and/or interests.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is issued. Subsequently financial guarantees are measured at the higher of (i) the fair value recognised on initial recognition or (ii) any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement.

The financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance on a quarterly basis. This fee varies depending on the counterparty risk, the amount and the time period of the contract. Therefore, the fair value of the financial guarantee contracts issued by the Group, at the inception date, equal the initial fee received, which is recognised in the income statement over the period to which it relates. The subsequent periodic fees are recognised in the income statement in period to which they relate.

2.10. Equity Instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Amounts paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.
Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

Preference shares issued are considered as equity instruments if the Group has no contractual obligation to redeem and if dividends, non cumulative, are paid only if and when declared by the Group.

2.11. 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.

2.12. Non-current Assets held-for-sale

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), the assets or disposal groups are available for immediate sale and is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS. Subsquently, these assets or disposal group are measured at the lower of their carrying amount or fair value less costs to sell.

In the scope of its activity, the Group incurs in the risk from failure of the borrower to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group acquires the asset held as collateral in exchange from loans. In accordance with the requirements of Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF), banks are prevented from acquiring property that is not essential to their daily operations (no. 1 of article 112 of RGICSF) 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 (no. 114 of art of RGICSF).

It is Group's objective to immediately dispose all property acquired in exchange for loans. This property is classified as non-current assets held-for-sale and initially recognised at the lower of its fair value less costs to sell and the carrying amount of the loans. Subsequently, this property is measured at the lower of its carrying amount and the corresponding fair value less costs to sell and is not depreciated. Any subsequent write-down of the acquired property to fair value is recorded in the income statement.

Property valuations are performed in accordance with one of the following methodologies, which are applied in accordance with the specific situation of the asset:
a) Market Method
The Market Comparison Criteria takes as reference transaction values of similar and comparable property to the property under valuation, obtained through market searching carried out in the zone.
b) Income Method
Under this method, the property is valued based on the capitalization of its net income, discounted for the present moment, through the discounted cash-flows method.
c) Cost Method
This method separates the value of property on its basic components: Urbane Ground Value and Urbanity Value; Construction value; and Indirect Costs Value.

The valuations are performed by independent specialized entities. The valuation reports are analysed internally with the gauging of processes adequacy, by comparing the sales values with the reevaluated values.

2.13. Property and Equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of years
Buildings	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 12
Security equipment	4 to 10
Office bequipment	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.

2.14. Intangible Assets

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis during their expected useful lives, which is usually between three to six years.

Costs that are directly associated with the development of identifiable specific software applications 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.

2.15. 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.

2.16. Employee Benefits

Pensions

Arising from the signing of the "Acordo Colectivo de Trabalho" (ACT) and subsequent amendments resulting from the 3 tripartite agreements as described in Note 13, the Bank and other Group entities set up pension funds and other mechanisms to cover the liabilities with pensions on retirement and disability, widows' pension 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.
In 2011, as described in Note 47, the Group changed retrospectively the accounting policy related to actuarial gains and losses recognition, adjusting the opening balance sheet and comparative values, starting to recognise, as allowed under paragraph 93A of IAS 19 "Employee Benefits", the actuarial deviations under other comprehensive income.

The liability with pensions is calculated semi-annually by the Group, as at 31 December and 30 June for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries. The discount rate used in this calculation is determined based on market rates of emissions associated with high quality corporate bonds, denominated in the currency in which benefits will be paid and with a similar maturity to the date of termination of the plan.

The expected return on plan assets is based on the long term expected return for each asset class within the portfolio of the pension funds and takes in consideration the investment strategy determined for the funds.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) the changes in actuarial assumptions, are recognised under equity in the balance other comprehensive income.

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) effect early retirement, and (v) effect of settlement or curtailment occurred during the period. Early retirement costs correspond to an increase on the liabilities due to the fact the employee retires before reaching 65 years of age.

The Group makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Semiannually, the Group assesses for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

Health care benefits

The Group provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above. Since 2008, these benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

Long-term service benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, the Group has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within the Group, long-term service premiums corresponding, respectively, to 1, 2 and 3 months of their effective monthly remuneration earned at the date the premiums are paid.

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by the Group in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated semi-annually, at the balance sheet date, by the Group using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation was determined based on the same methodology described for pensions.

In each period the increase in the liability for long-term service premiums, including actuarial gains and losses and past service costs is charged to the income statement.

Share based incentive scheme (SIBA)

BES and its subsidiaries established a share based payment scheme (SIBA), which ended in December 2010 that 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 can 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, being this scheme 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 were not remeasured for subsequent changes in their fair value.

Variable remuneration payment plan (PPRV)

BES and its subsidiaries established a benefits payment scheme - Variable remuneration payment plan (PPRV – 2008/2011), that ended in the first semester of 2011.

Under this incentive scheme, employees of BES and its subsidiaries had 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 had to remain in the Bank for a minimum period of three years.

This variable remuneration payment plan was within the scope of IFRS 2 – Share based payments and corresponded to a cash settlement share based payment. The fair value of this benefit plan at inception, determined at its grant date, was taken to the income statement as staff costs over a period of three years. The recognised liability under the plan was re-measured at each balance sheet date, being the fair value changes recognised in the income statement under the caption net gains from financial assets at fair value through profit or loss.

Variable remuneration payment plan on 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 first scheme, the attribution of PRVIF shares to the beneficiaries is performed on a deferred basis over a period of three years (1st year: 33%; 2nd year: 33% and 3rd year: 34%) and is subject to the achievement of a Return on Equity (ROE) greater than or equal to 5%.

Regarding 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 NYSE Euronext Lisbon 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 and the financial settlement of the options.

PRVIF provides for the granting of options on BES shares to the Bank Top Management. The options are granted by the Board of Directors to the beneficiaries in identical terms to those explained above for the attribution of options to the members of the Executive Committee.

PRVIF is accounted for under IFRS rules (IFRS 2 and IAS 19).

Bonus to employees and to the Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors is recognised in the income statement in the period to which they relate.

2.17. Income Tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available-for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the period, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill, not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted.

The Group offsets deferred taxes assets and liabilities for each subsidiary, whenever (i) the subsidiary has a legally enforceable right to set off current tax assets against current tax liabilities, and (ii) they relate to income taxes levied by the same taxation authority. This offset is therefore performed at each subsidiary level, being the deferred tax asset presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax assets and the deferred tax liability presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax liabilities.

2.18. 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.

When the effect of the passage of time (discount) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated to the obligation.

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.

2.19. 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.

2.20. 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.

2.21. Dividend income

Dividend income is recognised when the right to receive payment is established.

2.22. Segmental reporting

The Group adopted IFRS 8 – Segmental reporting, for the disclosure of the financial information by operating segments (see Note 4).

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The results of the operating segments are periodically reviewed by the Management for decisions taking purposes. The Group prepares on a regular basis, financial information regarding the operating segments, which is reported to the Management.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.23. 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.

2.24. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including cash, deposits with banks and deposits at Central Banks.

Cash and cash equivalents exclude restricted balances with central banks.

NOTE 3 – Critical Accounting Estimates and Judgements in applying Accounting Policies

IFRS set forth a range of accounting treatments and require management to apply judgement 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 aspects.

3.1. Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility of the markets, the Group has considered the following parameters when assessing the existence of impairment losses:

(i) Equity securities: declines in market value above 30% in relation to the acquisition cost or market value below the acquisition cost for a period longer than twelve-months;
(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgement in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised with a consequent impact in the income statement of the Group.

3.2. Fair value of derivatives

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgements in estimating fair values.

Consequently, the use of a different model or different assumptions or judgements 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 judgements. 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. Goodwill impairment

Goodwill recoverable amount recognised as an asset of the Group is revised annually regardless the existence of impairment losses.

For this purpose, the carrying amount of the business units of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows/ dividends predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested.

Changes in the expected cash flows and in the discount rate may lead to different conclusions from those that led to the preparation of these financial statements.

3.5. Securitisations and special purpose entities (SPE)

The Group sponsors the formation of special purpose entities (SPEs) primarily for asset securitisation transactions.
The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question (see Note 2.2).

The determination of the SPEs that needs to be consolidated by the Group requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual gains and losses. Different estimates and assumptions could lead the Group to a different scope of consolidation with a direct impact in net income.

3.6. Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement.

In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost.

Held-to-maturity investments are subject to impairment tests made by the Group. The use of different assumptions and estimates could have an impact on the income statement of the Group.

3.7. Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

The Tax Authorities are entitled to review the Bank and its subsidiaries located in Portugal's determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

3.8. 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 the Group's activities and results.

The Group's products and services includes deposits, loans to retail and corporate customers, fund management, broker and custodian services, investment banking services and the commercialization of life and non-life insurance products. Additionally, the Group makes short, medium and long term investments in the financial and currency exchange markets with the objective of taking advantages from the prices changes or to have a return from its available resources.

The Group has BES as its main operating unit- with 673 branches in Portugal and with branches in London, New York, Spain (25 branches), Nassau, Cayman Islands, Cape Verde, Venezuela and Madeira Free Zone and 11 representation offices – with BES Investmento (investment banking); BES Angola (39 branches); BES Açores (18 branches); Banco BEST (11 branches); Espírito Santo Bank; BES Oriente; Aman Bank; 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) Corporative Centre. Each segment includes the BES structures that directly or indirectly relate to it, and also the other units of the Group whose activities are most related to one of these segments. In addition to the individual evaluation of each operating unit of the Group (considered as an investment centre), the Executive Committee defines strategies, commercial programs and performance evaluation for each operating segment.

Complementary, the Group uses a second segmentation of its activities and results according to geographic criteria, segregating the activity and the results generated from the units located in Portugal (domestic activities) from the units located abroad (international activities).

4.1.Operating Segments Description

Each of the operating segments includes the following activities, products, customers and Group structures:

Domestic Commercial Banking

This operating segment includes all the banking activity with corporate and institutional customers developed in Portugal, based in the branch offices network, corporate centres and other channels and includes the following:

a) **Retail:** corresponds to all activity developed by BES in Portugal with private customers and small businesses, 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 customers. The main products considered on this segment are: discounted bills, leasing, factoring and short and long term loans; includes deposits and guarantees, custodian services, letters of credit, electronic payments management and other services.

c) **Private Banking:** includes private banking activity of BES, all profit, loss and assets and liabilities associated to customers classified as private by BES. The main products considered on this segment are: deposits; discretionary management, selling of investment funds, custodian services, brokerage services and insurance products.

International Commercial Banking

This operating segment includes the units located abroad, which banking activities are focused on corporate and retail customers, excluding investment banking and asset management, which are integrated in the corresponding segments.

Among the units comprising this segment are BES Angola and Spain, London, New York, Cape Verde and Venezuela 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

Include 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 Project Finance advisory services, mergers and acquisitions, restructuring and debt consolidation, initial public offerings (shares and bonds), brokerage and other investment banking services.

Asset Management

This segment includes the asset management activities developed by ESAF in Portugal and abroad (Spain, Brazil, Angola, Luxembourg and United Kingdom). ESAF's products includes all types 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 non-controlling strategic positions, as well as all the activity inherent to interest rate and exchange rate risk management, long and short positions on financial instruments management, which allow the Group to take advantage of the price changes in those markets where these instruments are exchanged.

Corporative Centre

This area does not correspond to an operating segment. It refers to an aggregation of corporative structures acting throughout the entire Group, such as, areas related to the Board of Directors, Compliance, Planning, 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, being also 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 strategic decisions and/ or of exceptional nature are analysed on a case by case basis, being the income and/ or costs generally allocated to the capital markets and strategic investments segment.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the Financial Department, whose mission is to make the Bank's financial management. The related activity and results are included in Capital Markets and Strategic Investments segment.

Interest and similar income/expense

Since the Group's activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Consolidated Investments under the Equity Method

Investments in associated companies consolidated under the equity method are included in Capital Markets and Strategic Investments segment, in case of BES associates. For other companies of the Group, the same entities are included in the segment they relate to.

Non current assets

Non current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. BES includes these assets on the Capital Markets and Strategic Investments segment; the non current assets held by the subsidiaries are allocated to the segment in which these subsidiaries develop their business.

Income taxes

Income tax is a part of the Group net income but does not affect the evaluation of most of the Operating Segments. Deferred tax assets and liabilities are included in the Capital Markets and Strategic Investments segment.

Post Employment Benefits

Assets under post employment benefits are managed in a similar way to deferred income taxes assets, and are included in the Capital Markets and Strategic Investments segment. The factors that influence the amount of responsibilities and the amount of the funds assets correspond, mainly, to external elements; it is Group's policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: BES Angola and its branches, BES África, Aman Bank, BES Oriente, Espírito Santo Bank, BES Cape Verde; Espírito Santo Vénétie, Banco Delle Tre Venezie, Moza Bank, Ijar Leasing Argélie, 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)

	31.12.2011								
	Retail	Corporate and Institutional	Private banking	International commercial banking	Investment banking	Asset management	Capital markets and strategic investments	Corporative centre	Total
Net interest income	347,682	161,543	60,918	471,289	76,858	2,359	60,942	-	1,181,591
Other operating income	227,124	267,504	25,066	92,303	156,561	49,103	93,944	-	911,605
Total operating income	574,806	429,047	85,984	563,592	233,419	51,462	154,886	-	2,093,196
Operating expenses	489,709	355,316	19,112	304,043	222,795	18,491	399,681	168,336	1,977,483
Includes:									
Provisions/Impairment	67,382	290,378	(270)	102,005	44,187	(950)	345,596	-	848,328
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	-	1,305	490	-	1,795
Share of profit of associates	-	-	-	64	4,753	-	(180,048)	-	(175,231)
Profit before income tax and non-controlling interests	**85,097**	**73,731**	**66,872**	**259,613**	**15,377**	**34,276**	**(424,353)**	**(168 336)**	**(57,723)**
Intersegment operating income	4,169	33,844	32	(115,220)	(10,106)	(18,900)	173,652	-	67,471
Total Net Assets	**17,092,934**	**22,910,839**	**2,341,794**	**18,890,876**	**6,578,612**	**173,869**	**12,248,448**	**-**	**80,237,372**
Total Liabilities	**17,016,100**	**22,910,839**	**2,341,835**	**17,483,049**	**5,938,314**	**30,006**	**8,324,754**	**-**	**74,044,897**
Investments in associates	**-**	**-**	**-**	**-**	**51,980**	**-**	**755,019**	**-**	**806,999**

(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	211,743	248 646	1,656,638
Includes:									
Provisions/Impairment	47,481	148,685	1,996	87,262	39,069	(338)	209,464	-	533,619
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	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**	**179,950**	**(248,646)**	**747,215**
Intersegment operating income	2,574	34,689	104	(36,857)	(2,464)	(22,997)	92,504	-	67,553
Total Net Assets	**17,342,990**	**20,561,371**	**1,505,145**	**19,538,705**	**7,048,731**	**171,102**	**16,860,174**	**-**	**83,028,218**
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**

The secondary segment information is prepared in accordance with the geographical distribution of the Group's business units, as follows:

(in thousands of euro)

	31.12.2011										
	Portugal	Spain	France/ Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the year	(269,562)	9,888	7,416	18,627	14,334	20,442	91,712	1,133	2,449	(5,197)	(108,758)
Net assets	58,599,834	5,908,729	76,237	3,575,449	1,397,601	2,680,528	6,866,988	144,852	249,876	737,278	80,237,372
Capital expenditure (Property and equipment)	20,802	3,204	-	267	203	1,163	59,682	720	409	19,307	105,757
Capital expenditure (Intangible assets)	38,892	4,502	-	3,082	655	143	884	211	3	410	48,782

(in thousands of euro)

	31.12.2010										
	Portugal	Spain	France/ Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the year	353,120	12,776	7,162	47,207	14,729	32,133	90,954	2,140	1,815	(5,135)	556,901
Net assets	60,845,748	5,498,374	72,470	5,601,399	1,562,993	2,672,191	5,923,889	111,437	252,857	486,860	83,028,218
Capital expenditure (Property and equipment)	40,656	1,325	-	3,118	14	-	148,435	1,281	36	-	194,865
Capital expenditure (Intangible assets)	106,470	22,632	-	6,733	-	-	695	85	-	116	136,731

NOTE 5 – Net Interest Income

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from loans and advances	2,661,047	17,379	2,678,426	1,994,564	43,230	2,037,794
Interest from financial assets at fair value through profit or loss	-	185,934	185,934	-	266,590	266,590
Interest from deposits with banks	71,287	2,572	73,859	51,162	16,163	67,325
Interest from available-for-sale financial assets	455,874	-	455,874	307,723	-	307,723
Interest from held-to-maturity financial assets	91,067	-	91,067	115,480	-	115,480
Interest from derivatives for risk management purposes	-	581,873	581,873	-	918,685	918,685
Other interest and similar income	17,829	-	17,829	14,301	-	14,301
	3,297,104	787,758	4,084,862	2,483,230	1,244,668	3,727,898
Interest expense and similar charges						
Interest from debt securities	667,253	162,916	830,169	735,074	204,020	939,094
Interest from amounts due to customers	1,001,816	35,956	1,037,772	446,727	61,098	507,825
Interest from deposits from central banks and other banks	444,824	15,432	460,256	185,319	8,403	193,722
Interest from subordinated debt	77,017	-	77,017	117,791	-	117,791
Interest from derivatives for risk management purposes	-	498,057	498,057	-	805,508	805,508
	2,190,910	712,361	2,903,271	1,484,911	1,079,029	2,563,940
	1,106,194	75,397	1,181,591	998,319	165,639	1,163,958

Interest from loans and advances includes an amount of euro 51 487 thousand (31 December 2010: 24 363 euro thousand) related to the unwind of discount regarding the impairment losses of loans and advances to customers that are overdue (see Note 22).

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.19, 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)

	31.12.2011	31.12.2010
Fee and commission income		
From banking services	476,424	522,361
From guarantees granted	215,951	184,624
From transactions with securities	69,873	44,495
From commitments assumed to third parties	42,789	42,987
Other fee and commission income	83,609	92,341
	888,646	886,808
Fee and commission expenses		
From banking services rendered by third parties	81,105	72,539
From transactions with securities	25,285	25,135
From guarantees received	9,119	1,699
Other fee and commission expenses	15,037	18,102
	130,546	117,475
	758,100	769,333

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)

	31.12.2011			31.12.2010		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	70,069	51,928	18,141	123,509	163,317	(39,808)
Issued by other entities	29,627	23,287	6,340	25,187	19,203	5,984
Shares	88,509	61,914	26,595	76,260	76,096	164
Other variable income securities	377	769	(392)	4,570	9,134	(4,564)
	188,582	**137,898**	**50,684**	**229,526**	**267,750**	**(38,224)**
Derivative financial instruments						
Exchange rate contracts	1,874,587	1,903,162	(28,575)	2,231,425	2,442,295	(210,870)
Interest rate contracts	6,245,494	6,178,005	67,489	6,834,416	6,809,008	25,408
Equity/Index contracts	2,058,038	2,108,643	(50,605)	1,450,159	1,478,864	(28,705)
Credit default contracts	845,621	865,810	(20,189)	545,887	539,458	6,429
Other	215,463	178,914	36,549	398,226	395,537	2,689
	11,239,203	**11,234,534**	**4,669**	**11,460,113**	**11,665,162**	**(205,049)**
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	114 644	129,836	(15,192)	145,117	118,356	26,761
Shares	5 027	358	4,669	1,335	188	1,147
Other securities of variable income	80,108	343,179	(263,071)	152,206	193,614	(41,408)
	199,779	**473,373**	**(273,594)**	**298,875**	**312,166**	**(13,291)**
Other financial assets [(1)]						
Deposits with Banks	-	-	-	479	715	(236)
Loans and Advances to costumers	25,921	33,538	(7,617)	141,964	146,271	(4,307)
	25,921	**33,538**	**(7,617)**	**142,443**	**146,986**	**(4,543)**
Financial liabilities [(1)]						
Deposits from Banks	21,702	48,665	(26,963)	30,104	36,488	(6,384)
Due to costumers	314,522	272,512	42,010	84,778	112,693	(27,915)
Debt Securities issued	95,669	63,762	31,907	285,941	179,099	106,842
Subordinated Debt	-	-	-	11,877	14,783	(2,906)
	431,893	**384,939**	**46,954**	**412,700**	**343,063**	**69,637**
	657,593	**891,850**	**(234,257)**	**854,018**	**802,215**	**51,803**
	12,085,378	**12,264,282**	**(178,904)**	**12,543,657**	**12,735,127**	**(191,470)**

(1) Includes the fair value change of hedged assets and liabilities or at fair value option

As at 31 December 2011, this balance includes a positive effect of euro 50.9 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 2010: positive effect of euro 82.7 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 2011, the gains recognised in the income statement arising from the built-in fee (day one profit) amounted to approximately euro 14 161 thousand (2010: euro 10 446 thousand).

NOTE 8 – Net Gains from available-for-sale Financial Assets

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	12,585	10,502	2,083	18,478	19,913	(1,435)
Issued by other entities	12,771	39,337	(26,566)	13,888	19,543	(5,655)
Shares	240,591	290,227	(49,636)	458,664	90,390	368,274
Other variable income securities	9,072	3,723	5,349	11,008	7,756	3,252
	275,019	**343,789**	**(68,770)**	**502,038**	**137,602**	**364,436**

During the year ended 31 December 2011, the Group sold at market prices through the overall stock exchange 81.6 million ordinary shares of Bradesco, 165.4 million ordinary shares of EDP and 113.8 ordinary shares of Portugal Telecom. The realised net gain obtained with these transactions amounted to euro 40.0 million.

During the year ended 31 December 2010, the Group sold at market prices through the overall stock exchange 52.5 million ordinary shares of Bradesco, 11.7 million ordinary shares of Portugal Telecom and 43.2 million ordinary shares of EDP. The realised net gain following these transactions was euro 287.6 million.

Related party transactions are described in Note 42.

NOTE 9 – Net Gains from Foreign Exchange Differences

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	1,327,568	1,360,213	(32,645)	1,485,616	1,438,885	46,731
	1,327,568	**1,360,213**	**(32,645)**	**1,485,616**	**1,438,885**	**46,731**

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 – Net Gains/ Losses from the sale of Other Assets

(in thousands of euro)

	31.12.2011	31.12.2010
Loans and advances to costumers (deleverage)	(89,774)	(9,160)
Non current assets held for trade	(4,828)	(12,727)
Other	2,922	9,518
	(91,680)	**(12,369)**

Under the strategy of reducing assets (deleverage), the Group sold euro 2.0 billion of loans during the year ended 31 December 2011, having recorded in the income statement a loss of euro 77.5 million.

NOTE 11 – Other Operating Income and Expenses

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Other operating income / (expenses)		
Technological services	6,028	6,700
Gains on repurchase of Group debt securities (see Note 33 and 36)	470,735	32,291
Non recurring gains on credit operations	26,553	19,582
Non recurring gains on advisory services	2,586	5,619
Direct and indirect taxes	(47,589)	(14,307)
Contributions to the Deposits Guarantee Fund	(6,463)	(5,644)
Membership and donations	(7,744)	(7,475)
Losses on customer funds contracts	(3,557)	(38,368)
Loss arising from the transfer to the Social Security of the liabilities with pensions in payment [a]	(107,173)	-
Other	24,427	(12,032)
	357,803	**(13,634)**

(a) See Note 13 - Employee Benefits

Direct and indirect taxes include an amount of euro 30.5 million relating to the cost related with the introduction of a Banking levy, created by Law No. 55-A/2010 of 31 December (see Note 35).

In December 2011, this balance includes a cost in the amount of euro 24.4 million related with the Investors Compensations Scheme.

NOTE 12 – Staff Costs

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Wages and salaries	447,591	451,846
Remuneration	447,033	447,900
Long-term service benefits (see Note 13)	558	3,946
Mandatory social charges	94,253	70,304
Pension costs (see Note 13)	21,025	41,801
Other costs	24,606	17,919
	587,475	**581,870**

Other costs includes the amount of euro 2631 thousands related with the Variable remuneration payment plan on financial instruments (PRVIF) and euro 1 792 thousands related with the variable remuneration payment plan (PPRV) (31 December 2010: euro 4 301 thousands), in accordance with the accounting policy described in Note 2.15. In 31 December 2010, other costs also included euro 515 thousands related with the share based incentive scheme (SIBA). The details of these plans are presented in Note 13.

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 2011				
Salaries and other short-term benefits	5,827	739	13,509	20,075
Bonus	3,501	-	3,359	6,860
Sub total	**9,328**	**739**	**16,868**	**26,935**
Pension costs	6,358	2	1,146	7,506
Long service benefits and other	275	-	100	375
Total	**15,961**	**741**	**18,114**	**34,816**
31 December 2010				
Salaries and other short-term benefits	5,593	739	13,221	19,553
Bonus	4,409	-	5,643	10,052
Sub total	**10,002**	**739**	**18,864**	**29,605**
Pension costs	4,386	17	1,552	5,955
Long service benefits and other	616	-	204	820
Total	**15,004**	**756**	**20,620**	**36,380**

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 2011 and 2010, loans granted by BES Group to its key management personnel, amounted to euro 28 183 thousand and euro 27 386 thousand, respectively.

As at 31 December 2011 and 2010, the number of employees of the Group is analysed as follows:

	31.12.2011	31.12.2010
BES employees	6,704	6,750
Financial sector subsidiaries employees	3,159	3,108
Financial sector group entities employees	**9,863**	**9,858**

The number of BES Group employees, per professional category, is analysed as follows:

	31.12.2011	31.12.2010
Senior management	1,137	1,190
Management	994	1,034
Specific functions	4,027	3,988
Administrative functions and other	3,705	3,646
	9,863	**9,858**

NOTE 13 – Employee Benefits

Pension and health-care benefits

In compliance with the collective labor agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force hired until 31 March 2008. Employees hired after 31 March 2008 are covered by the Portuguese Social Security scheme.

Additionally, with the publication of Decree-Law n.1-A / 2011 of January 3, all banking sector employees beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Scheme from 1 January 2011, which started to assume the protection of banking sector employees in the contingencies of maternity, paternity and adoption and even old age, remaining under the responsibility of the banks the protection in sickness, disability, survivor and death.

Retirement pensions of banking employees integrated into the General Social Security Regime continue to be calculated according to the provisions of ACT and other conventions. Banking employees, however, are entitled to receive a pension under the general regime, which amount takes into account the number of years of discounts for that scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of ACT and that the one that the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employee entity and 3% paid by the employers, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

Notwithstanding, the integration leads to an effective decrease in the 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 from the perspective of the beneficiary on the date of integration, the past service liability remained unchanged at 31 st December 2010.

Taking into account that the basis for calculating benefits under the ACT and RGSS plans are based on different formulas, there is the possibility of obtaining a gain, when the value of the liabilities to be covered by the pension fund at retirement is lower than responsibilities on 31 December 2010, being this gain deferred on a linear basis over the average working life until the employees reach the normal retirement age.

At the end of 2011 following the third tripartite agreement established between the Portuguese Government, the Portuguese Banking Association and the banking sector employees unions, it was decided to transfer to transfer to the Social Security sphere the banks liabilities with pension in payment as at December 31, 2011.

The tripartite agreement established, provides for the transfer to the Social Security sphere of the liabilities with pensions in payment as of 31 December 2011 at constant values (0% discount rate). The responsibilities relating to updates of pensions value, other pension benefits in addition to those to be borne by the Social Security, health-care benefits, death allowance and deferred survivor pensions, will remain in the sphere of responsibility of the financial institutions with the correspondent funding being provided through the respective pension funds.

The financial institutions pension funds assets allocated to the cover of the transferred liabilities were also be transmitted to the Social Security.

Being thus a definitive and irreversible transfer of the liabilities with pensions in payment (even if only on a portion of the benefit), the conditions set out in IAS 19 'Employee benefits' underlying the concept of settlement are met, as the obligation with pension in payment as at December 31, 2011 extinguished at the date of transfer. On this basis, the impacts derived from this same transfer were recognized in the income statement.

As at 30 December 1987, the Bank estabilished a pension fund to cover the above mentioned liabilities with pension payments. Later, after obtaining the authorisation from the Portuguese Insurance Institute, the Bank has changed the pension fund contract in order to allow the coverage of all pension liabilities, health care benefits and, in 2009, the death allowance. The pensions funds in Portugal are managed by ESAF – Espírito Santo Fundo de Pensões, S.A.

The key actuarial assumptions used to calculate pension liabilities are as follows:

	Assumptions		Actual	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Financial assumptions				
Salaries increase rate	2.25%	3.25%	1.10%	3.00%
Pensions increase rate	1.00%	1.75%	-0.70%	0.20%
Expected return of plan assets	5.50%	5.50%	-7.38%	2.17%
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:

	31.12.2011	31.12.2010
Employees	6,007	6,292
Pensioners	5,706	5,684
Total	**11,713**	**11,976**

Considering the change in the accounting policy made during the year ended 31 December 2011, as described in Note 47, the application of IAS 19 on responsabilities and coverage levels reportable to 31 December 2011 and 2010 is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Assets / (liabilities) recognised in the balance sheet		
Defined benefit obligation		
Pensioners	(349,316)	(1,292,087)
Employees	(629,344)	(799,508)
	(978,660)	**(2,091,595)**
Health-care benefit obligation		
Pensioners	(48,541)	(70,371)
Employees	(50,663)	(43,400)
	(99,204)	(113,771)
Total obligations	**(1,077,864)**	**(2,205,366)**
Coverage		
Fair value of plan assets	1,184,878	2,206,313
Net assets in balance sheet (see Note 29)	**107,014**	**947**
Acumulated actuarial deviations recognised in other comprehensive income	**886,964**	**930,979**

In accordance with the accounting policy described in Note 2.16, the Group liability with pensions is calculated semi-annually.

In accordance with the accounting policy described in Note 2.16 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)

	31.12.2011			31.12.2010		
	Pension plans	Health-care benefits	Total	Pension plans	Health-care benefits	Total
Defined benefit obligation at the beginning of the year	**2,091,595**	**113,771**	**2,205,366**	**2,016,799**	**108,403**	**2,125,202**
Service cost	15,652	1,590	17,242	36,483	2,180	38,663
Interest cost	110,834	6,257	117,091	109,425	5,904	115,329
Plan participants' contribution	3,267	-	3,267	3,243	1	3,244
Actuarial (gains) / losses:						
- changes in actuarial assumptions	(189,993)	(11,799)	(201,792)	-	-	-
- experience adjustments	(105,581)	(4,685)	(110,266)	21,955	3,246	25,201
Pensions paid by the fund	(106,625)	(5,930)	(112,555)	(105,293)	(5,945)	(111,238)
Benefits paid by the Group	(853,839)	-	(853,839)	-	-	-
Exchange differences and other	13,350	-	13,350	8,983	(18)	8,965
Defined benefit obligation at the end of the year	**978,660**	**99,204**	**1,077,864**	**2,091,595**	**113,771**	**2,205,366**

Under the third tripartite agreement mentioned above and the subsequent transfer to the Social Security sphere of the banks liabilities with pensions in payment as at 31 December 2011, there was a reduction of liabilities, measured based on the actuarial assumptions used in preparing the financial statements and consistent with IAS 19, in the amount of euro 853.8 million.

However, under the agreement, the value of assets to be transferred to the Social Security in return for the transfer of the liabilities with pension payment was determined on a settlement perspective, as it is a definitive and irreversible transfer of these responsibilities and corresponded to the value thereof, and it was estimated based on a discount rate of 4% (instead of the 5.5% rate used for the purpose of preparing the financial statements). Thus, the amount payable by the Group to the State amounted to euro 961 million, which led to the recognition in 2011 in the income statement of cost in the amount of euro 107.2 million, corresponding to the differential of the discount rates mentioned above.

Of the total payable amount (euro 961 million), about euro 853.8 million were borne by the Pension Fund and euro 107.2 million directly by the Group. At the end of December 2011, 55% of the amount outstanding was paid, and the remaining should be paid in the first half of 2012.

As at 31 December 2011, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 15.3 million (31 December 2010: euro 17.5 million) and an increase in costs (service cost and interest cost) of euro 1.1 million (31 December 2010: euro 1.3 million).

The change in fair value of the plan assets for the years ended 31 December 2011 and 2010 is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Fair value of plan assets at the beginning of the year	**2,206,313**	**2,198,280**
Actual return on plan assets	(154,735)	45,296
Group contributions	92,467	58,027
Plan participants' contributions	3,267	3,244
Pensions paid by the fund	(112,555)	(111,238)
Loss arising from the transfer to the Social Security of the liabilities with pensions in payment	(853,839) [1]	-
Exchange differences and other	3,960	12,704
Fair value of plan assets at the end of the year	**1,184,878**	**2,206,313**

(1) 55% of this amount was paid in 2011, being the remaining value recognised as a liability in the fund, to be paid in 2012

The fair value of plan assets can be analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Shares	371,270	759,778
Bonds	136,212	441,178
Real estate assets	657,856	477,677
Other	403,767	527,680
Amounts payable to the Social Security	(384,227)	-
Total	**1,184,878**	**2,206,313**

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)

	31.12.2011	31.12.2010
Shares	1,288	37,895
Bonds	339	1,132
Real estate assets	217,802	169,125
Total	**219,429**	**208,152**

As at 31 December 2010, the shares held by the pension fund correspond to 13.2 million shares of BES. As at 31 December 2011, the pension fund holds participation units of ES Ventures III Fund, which is fully consolidated in the Group.

During the period ended 31 December 2011 the Group sold 18 520 and 4 830 units of Fungepi Fund and Fungere Fund to the Group pensions funds, by a global amount of euro 80.0 million, not incurring in any material loss or gain. During the period ended 31 December 2010 there was no transactions with the pension fund (see Note 42).

The changes in the unrecognised net actuarial losses are analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Unrecognised net actuarial losses at the beginning of the year	**930,979**	**839,061**
Actuarial (gains) / losses:		
- changes in actuarial assumptions	(201,792)	-
- experience adjustments	157,777	92,096
Other	-	(178)
Unrecognised net actuarial losses at the end of the year	**886,964**	**930,979**

The net periodic benefit cost can be analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Service cost	17,242	38,663
Interest cost	117,091	115,329
Expected return on plan assets	(113,308)	(112,191)
Net benefit cost	**21,025**	**41,801**

The changes in the assets/ (liabilities) recognised in the balance sheet is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
At the beginning of the year	**947**	**73,078**
Net periodic benefit cost	(21,025)	(41,801)
Actuarial Gains/Losses recognised on other comprehensive income	44,015	(92,096)
Contributions of the year and pensions paid by the Group	92,467	58,027
Other	(9,390)	3,739
At the end of the year	**107,014**	**947**

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)

	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Defined benefit obligation					
Pension plans	(978,660)	(2,091,595)	(2,016,799)	(1,958,118)	(1,970,365)
Health-care benefits	(99,204)	(113,771)	(108,403)	(106,756)	(110,675)
	(1,077,864)	(2,205,366)	(2,125,202)	(2,064,874)	(2,081,040)
Fair value of plan assets	1,184,878	2,206,313	2,198,280	2,056,627	2,233,823
(Un)/over funded liabilities	**107,014**	**947**	**73,078**	**(8,247)**	**152,783**
(Gains)/losses from experience adjustments arising on defined benefit obligation					
Pension plans	(105,581)	21,955	50,034	23,491	42,590
Health-care benefits	(4,685)	3,246	1,549	19	(1,881)
(Gains)/losses from experience adjustments arising on plan assets	268,043	66,895	(90,994)	727,214	(157,635)

Variable remuneration payment plan (PPRV)

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 – 2008/2011).

Under this incentive scheme, BES Group employees had 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 was not a plan where stocks or stock options are granted to employees. Under this plan no rights were granted to employees' equivalent to a shareholding position in BES.

The plans' initial fair value was calculated using an option valuation model with the following assumptions:

	Assumptions at the beginning of PPRV	After the capital increase in 2009 [a]
Inicial reference date	02-Jun-2008	
Final reference date	02-Jun-2011	
Rights granted to employees	5,000,000	8,285,626
Reference price (in EUR)	11,00	6.64
Interest rate	5.22%	
Volatility	33.5%	
Inicial fair value of the plan (in thousands of euro)	12,902	

(a) Includes the adjustment of the dilutive effect arising from the capital increase

In accordance with the accounting policy described in Note 2.16, the initial fair value of the PPRV, in the amount of euro 12 902 thousand, has been recognised as staff costs during the three year period comprised between the initial and the final reference dates (3 years). As such, the Group recognised during 2011, as staff costs, the amount of euro 1 792 thousand (31 December 2010: euro 4 301 thousand). The change in the fair value of the benefit granted to employees during the life of the program was recognised as a profit/loss from financial assets at fair value through profit or loss. As at 31 December 2011, the plan was extinguished.

Variable remuneration payment plan on 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.

Regarding the first scheme, the attribution of PRVIF shares to the beneficiaries is performed on a deferred basis over a period of three years (1st year: 33%; 2nd year: 33% and 3rd year: 34%) and is subject to the achievement of a Return on Equity (ROE) greater than or equal to 5%.

Regarding 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 NYSE Euronext Lisbon 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.

The plans' initial fair value was calculated using an option valuation model with the following assumptions:

	Assumptions at the beginning of PRIVF
Inicial reference date	12-Apr-2011
Final reference date	31-Mar-2014
Rights granted to employees	2,250,000
Reference price (in euro)	3.47
Interest rate	2.31%
Volatility	40.0%
Inicial fair value of the plan (in thousands of euro)	1,130

PRVIF is accounted for under IFRS rules (IFRS 2 and IAS 19). During the year ended 31 December 2011, the Group registered a cost of euro 2 631 thousand related to variable remuneration (of which the amount of euro 286 thousands relating to amortization of initial strike of options granted).

Long-term service benefits

As referred in Note 2.16, 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 2011 and 2010, the Groups' liabilities regarding this benefits amount to euro 27 477 thousand and euro 29 655 thousand, respectively (see Note 37). The costs incurred in the year ended 31 December 2011 with long-term service benefits amounted to euro 558 thousand (31 December 2010: euro 3 946 thousand).
The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable).

NOTE 14 – General and Administrative Expenses

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Rental costs	69,347	69,256
Advertising costs	35,271	43,202
Communication costs	46,373	38,327
Maintenance and related services	18,465	18,082
Travelling and representation costs	32,639	37,442
Transportation	8,708	9,080
Insurance costs	8,297	7,429
IT services	65,841	64,325
Independent work	7,434	8,327
Temporary work	6,677	8,168
Electronic payment systems	12,479	12,900
Advisory services	12,538	14,765
Legal costs	19,933	20,823
Consultants and external auditors	13,161	8,710
Water, energy and fuel	10,755	10,646
Consumables	5,370	5,738
Other costs	60,465	63,837
	433,753	**441,057**

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)

	31.12.2011	31.12.2010
Up to 1 year	9,133	8,115
1 to 5 years	13,575	9,633
	22,708	**17,748**

The fees invoiced during the years 2011 and 2010 by the statutory auditors, according to art. 508.-F of "Código das Sociedades Comerciais", are presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Audit fees	2,604	2,304
Audit related fees	1,544	1,567
Tax consultancy services	591	645
Other services	949	1,067
Total invoiced services	**5,688**	**5,583**

NOTE 15 – Earnings per Share

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

(in thousands of euro)

	31.12.2011	31.12.2010
Profit attributable to the equity holders of the Bank (1)	**(44,305)**	**523,421**
Weighted average number of ordinary shares (thousands)	1,187,255	1,166,667
Weighted average number of treasury stock (thousands)	(257)	(1,243)
Weighted average number of ordinary shares outstanding (thousands)	**1,186,998**	**1,165,424**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**(0.04)**	**0.45**

(1) Net profit for the year adjusted by the dividend from preference shares

Diluted earnings per share

The diluted earnings per share is calculated considering the profit attributable to the equity holders of the Bank and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

The diluted earnings per share are not different from the basic earning per share as the outstanding plans of PRVIF do not have a dilutive effect.

NOTE 16 – Cash and Deposits at Central Banks

As at 31 December 2011 and 2010, this balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Cash	278,179	306,203
Deposits at central banks		
Bank of Portugal	110,045	120,045
Other central banks	702,215	504,257
	812,260	624,302
	1,090,439	930,505

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 110 045 thousand (31 December 2010: euro 116 208 thousand). According to the European Central Bank Regulation (CE) no. 1745/2003, of 12th September 2003, 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 2011, the interest earnings average rate of these deposits was 1.25% (31 December 2010: 1.00%).

The fulfilment of the minimum mandatory requirements for a given period of observation is implemented taking into account the value of bank deposits with the Bank of Portugal during the referred period. The balance of the bank account with the Bank of Portugal as at 31 December 2011, was included in the maintenance period of 14 December 2011 to 17 January 2012, which corresponded to an average mandatory reserve of euro 582.6 million.

Through the ECB press release of 8 December 2011, poured in Regulation ECB/2011/26, the minimum reserves ratio is now 1% for periods beginning on 18 January 2012.

NOTE 17 – Deposits with Banks

As at 31 December 2011 and 2010, this balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Deposits with banks in Portugal		
Uncollected cheques	153,662	181,680
Repayable on demand	58,384	64,388
	212,046	246,068
Deposits with banks abroad		
Repayable on demand	198,751	148,121
Uncollected cheques	4,466	1,260
Other	165,550	162,523
	368,767	311,904
	580,813	557,972

Uncollected cheques in Portugal and abroad were sent for collection during the first working days following the reference dates.

NOTE 18 – Financial Assets and Liabilities Held for Trading

As at 31 December 2011 and 2010, this balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	888,797	1,524,069
Issued by other entities	286,843	307,352
Shares	41,268	181,238
Other variable income securities	727	538
	1,217,635	2,013,197
Derivatives		
Derivative financial instruments with positive fair value	2,217,004	1,928,864
	3,434,639	3,942,061
Financial liabilities held for trading		
Derivative financial instruments with negative fair value	2,124,388	1,957,969
Short selling	865	130,038
	2,125,253	2,088,007

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 2011 and 2010 the analysis of the securities held for trading by the period to maturity, is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	93,686	741,087
3 to 12 months	225,924	71,040
1 to 5 years	200,443	445,523
More than 5 years	655,587	569,799
Undetermined	41,995	185,748
	1,217,635	2,013,197

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.

The securities pledged as collateral by the Group are analysed in Note 40.

As at 31 December 2011 and 2010, financial assets held-for-trading analysed by quoted and unquoted securities, are presented as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	852,761	36,036	888,797	1,524,069	-	1,524,069
Issued by other entities	109,400	177,443	286,843	35,195	272,157	307,352
Shares	40,191	1,077	41,268	181,238	-	181,238
Other variable income securities	727	-	727	538	-	538
	1,003,079	214,556	1,217,635	1,741,040	272,157	2,013,197

As at 31 December 2011, the exposure to public debt from peripheral Eurozone countries is presented in Note 45 – Risk Management.

As at 31 December 2011 and 2010, derivative financial instruments can be analysed as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Notional	Fair value		Nocional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	1,460,151	27,672	13,605	1,509,550	39,212	70,486
- sell	1,458,214			1,495,411		
Currency Swaps						
- buy	2,442,950	12,416	11,602	3,626,838	9,689	10,188
- sell	2,431,893			3,632,969		
Currency Futures	58,503	-	-	319,608	-	-
Currency Interest Rate Swaps						
- buy	168,995	28,497	26,259	3,664,746	318,313	154,614
- sell	162,074			3,646,180		
Currency Options	3,578,304	90,389	90,729	5,921,549	130,067	154,837
	11,761,084	**158,974**	**142,195**	**23,816,851**	**497,281**	**390,125**
Interest rate contracts						
Forward Rate Agreements	380,000	1,047	1,982	1,124,000	408	197
Interest Rate Swaps	34,581,122	1,712,479	1,656,756	41,600,058	1,166,981	1,189,653
Swaption - Interest Rate Options	2,747,936	5,003	5,157	2,747,426	4,893	3,502
Interest Rate Caps & Floors	7,690,395	51,553	47,305	8,523,046	63,400	52,830
Interest Rate Futures	3,573,796	-	-	17,207,167	-	-
Interest Rate Options	1,893,560	25,473	31,714	32,310,536	194	28,261
Future Options	-	-	-	29,458,165	-	-
	50,866,809	**1,795,555**	**1,742,914**	**132,970,398**	**1,235,876**	**1,274,443**
Equity / index contracts						
Equity / Index Swaps	843,911	50,453	51,122	678,278	20,069	31,099
Equity / Index Options	2,095,919	60,833	102,179	3,405,551	115,744	212,068
Equity / Index Futures [a)]	152,706	-	-	361,985	-	-
Future Options [a)]	32,089	-	-	5,242,778	-	-
	3,124,625	**111,286**	**153,301**	**9,688,592**	**135,813**	**243,167**
Credit default contracts						
Credit Default Swaps	**3,559,588**	**151,189**	**85,978**	**3,544,556**	**59,894**	**50,234**
Total	**69,312,106**	**2,217,004**	**2,124,388**	**170,020,397**	**1,928,864**	**1,957,969**

a) Derivatives traded in organised markets, whose fair value is settled daily through the margin accounts

As at 31 December 2011 the fair value of derivative financial instruments included the net amount of euro 43.5 million (31 December 2010: net amount of euro 73.1 million) related to the negative fair value of the embedded derivates, as described in Note 2.4.

As at 31 December 2011 and 2010, the analysis of trading derivatives by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011		31.12.2010	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	11,431,250	(42,515)	50,324,918	(2,092)
3 to 12 months	11,664,854	(1,334)	61,940,718	18,265
1 to 5 years	27,576,010	23,078	27,675,040	(227,585)
More than 5 years	18,639,992	113,387	30,079,721	182,307
	69,312,106	**92,616**	**170,020,397**	**(29,105)**

NOTE 19 – Other Financial Assets at fair value through Profit or Loss

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Bonds and other fixed income securities		
Issued by other entities	127,731	259,002
Shares and other securities	1,836,258	1,165,329
	1,963,989	**1,424,331**

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 2011 and 2010, 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)

	31.12.2011	31.12.2010
Up to 3 months	385,546	72,067
3 to 12 months	400	2,836
1 to 5 years	1,278,221	609,681
More than 5 years	69,810	724,598
Undetermined	230,012	15,149
	1,963,989	**1,424,331**

Regarding quoted or unquoted securities, the balance financial assets at fair value through profit or loss, is presented as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by other entities	15,885	111,846	127,731	51,516	207,486	259,002
Shares and Other variable income securities	13,719	1,822,539	1,836,258	15,145	1,150,184	1,165,329
	29,604	**1,934,385**	**1,963,989**	**66,661**	**1,357,670**	**1,424,331**

NOTE 20 – Available-For-Sale Financial Assets

As at 31 December 2011 and 2010, 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	4,813,456	666	(124,908)	-	4,689,214
Issued by other entities	5,634,799	34,146	(154,615)	(11,094)	5,503,236
Shares	1,195,790	41,200	(184,153)	(132,088)	920,749
Other variable income securities	393,790	4,057	(3,080)	(25,100)	369,667
Balance as at 31 December 2011	**12,037,835**	**80,069**	**(466,756)**	**(168,282)**	**11,482,866**
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**

(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 judgement criteria's described in Note 3.1.

As at 31 December 2011, the exposure to public debt from peripheral Eurozone countries is presented in Note 45 – Risk Management.

The securities pledged as collateral by the Group are analysed in Note 40. As at 31 December 2011, the available for sale securities portfolio includes the amount of euro 306.4 million related with securitization operations (see Note 1).

The changes occurred in impairment losses of available-for-sale financial assets are presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	159,232	137,890
Charge for the year	64,573	36,113
Charge off	(51,363)	(14,515)
Write back for the year	(6,782)	(6,311)
Exchange differences and other	2,622	6,055
Balance at the end of the year	**168,282**	**159,232**

As at 31 December 2011 and 2010, the analysis of available-for-sale assets by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	4,915,609	2,586,843
3 to 12 months	1,386,299	3,178,557
1 to 5 years	2,001,542	1,291,073
More than 5 years	1,887,667	1,691,139
Undetermined	1,291,749	3,027,269
	11,482,866	**11,774,881**

The main equity exposures that contribute to the fair value reserve, as at 31 December 2011 and 2010, can be analysed as follows:

(in thousands of euro)

	31.12.2011				
Description	**Acquisition cost**	**Fair value reserve**		**Impairment**	**Book value**
		Positive	**Negative**		
Portugal Telecom	603,298	-	(151,041)	-	452,257
EDP- Energias de Portugal	200,664	-	(24,077)	-	176,587
Banque Marocaine du Commerce Extérieur	2,376	5,454	-	(348)	7,482
	806,338	**5,454**	**(175,118)**	**(348)**	**636,326**

(in thousands of euro)

	31.12.2010				
Description	**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- Energias de Portugal	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**

During the year ended 31 December 2011, the Group sold at market prices 81.6 million ordinary shares of Bradesco, 165.4 million ordinary shares of EDP and 113.8 million shares of Portugal Telecom. The realised net loss following these transactions was euro 40.0 million (see Note 8).

During the year ended 31 December 2010, the Group sold at market prices 52.5 million ordinary shares of Bradesco, 11.7 million ordinary shares of Portugal Telecom and 43.2 million shares od EDP. The realised net gain following these transactions was euro 287.6 million.

During the year ended 31 December 2011, the Group received as dividends an amount of euro 138.7 million from PT shares, an amount of euro 11.8 million from EDP shares and an amount of euro 5.3 million from Banco Bradesco shares (31 December 2010: euro 129.1 million, euro 17.2 million and euro 32.4 million, respectively).

The analysis of the available-for-sale financial assets by quoted and unquoted securities is presented as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	2,839,437	1,849,777	4,689,214	1,728,459	1,990,324	3,718,783
Issued by other entities	750,832	4,752,404	5,503,236	1,729,920	3,298,152	5,028,072
Shares	688,015	232,734	920,749	2,047,683	267,812	2,315,495
Other variable income securities	126,111	243,556	369,667	88,326	624,205	712,531
	4,404,395	**7,078,471**	**11,482,866**	**5,594,388**	**6,180,493**	**11,774,881**

NOTE 21 – Loans and Advances to Banks

As at 31 December 2011 and 2010, this balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Loans and advances to banks in Portugal		
Deposits	94,925	1,295,549
Loans	711,963	103,373
Very short term deposits	18,105	27,105
Other loans and advances	1,247	3,351
	826,240	**1,429,378**
Loans and advances to banks abroad		
Deposits	1,170,236	1,370,001
Operações com acordo de revenda	36,343	55,269
Very short term deposits	777,027	1,000,033
Other loans and advances	472,949	390,999
	2,456,555	**2,816,302**
Impairment losses	(219)	(244)
	3,282,576	**4,245,436**

The main loans and advances to banks in Portugal, as at 31 December 2011, bear interest at an average annual interest rate of 2.22% (31 December 2010: 1.53%). Loans and advances to banks abroad bear interest at 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. As at 31 December 2011, the Group had no aplications on European Central Banks System.

As at 31 December 2011 and 2010, the analysis of loans and advances to banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	2,830,270	3,590,122
3 to 12 months	68,715	377,361
1 to 5 years	118,916	232,281
More than 5 years	264,705	45,633
Undetermined	189	283
	3,282,795	**4,245,680**

The changes occurred during the year in impairment losses of loans and advances to banks are presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the begining of the year	244	416
Charge for the year	406	164
Write back for the year	(446)	(378)
Exchange differences and other	15	42
Balance at the end of the year	**219**	**244**

NOTE 22 – Loans and Advances to Customers

As at 31 December 2011 and 2010, this balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Domestic loans		
Corporate		
Loans	13,717,319	14,107,206
Commercial lines of credits	5,312,532	4,800,692
Finance leases	2,937,632	3,200,046
Discounted bills	512,259	554,527
Factoring	1,451,226	1,566,142
Overdrafts	27,075	25,048
Other loans	370,395	226,522
Retail		
Mortgage loans	10,556,061	10,716,984
Consumer and other loans	1,890,811	2,254,461
	36,775,310	37,451,628
Foreign loans		
Corporate		
Loans	7,958,147	8,553,156
Commercial lines of credits	2,105,017	2,147,981
Finance leases	67,019	182,281
Discounted bills	113,044	174,543
Factoring	23,036	50,802
Overdrafts	525,849	372,415
Other loans	451,515	1,229,237
Retail		
Mortgage loans	956,733	884,958
Consumer and other loans	689,507	452,445
	12,889,867	14,047,818
Overdue loans and interest		
Up to 3 months	142,390	79,520
From 3 months to 1 year	365,141	258,045
From 1 to 3 years	680,178	536,733
More than 3 years	357,940	232,367
	1,545,649	1,106,665
	51,210,826	52,606,111
Impairment Losses	(2,167,444)	(1,776,988)
	49,043,382	50,829,123

As at 31 December 2011, the balance loans and advances to customers (net of impairment losses) includes an amount of euro 5 828.7 million (31 December 2010: euro 5 715.3 million) related to securitised loans following the consolidation of securitisation vehicles (see Note 1 and 43), according to the accounting policy described in Note 2.2. The liabilities related to these securitisations are booked under debt securities issued (see Notes 33 and 43).

As at 31 December 2011, loans and advances includes euro 5 305.9 thousand of mortgage loans that collateralise the issue of covered bonds (31 December 2010: euro 4 963.1 thousand) (see Note 33).

The fair value of loans and advances to customers is presented in Note 44.

As at 31 December 2011 and 2010, the analysis of loans and advances to customers by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	7,695,413	3,911,717
3 to 12 months	6,006,109	7,211,983
1 to 5 years	11,376,077	11,507,829
More than 5 years	24,587,578	28,867,917
Undetermined	1,545,649	1,106,665
	51,210,826	52,606,111

The changes occurred in impairment losses of loans and advances to customers are presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	1,776,988	1,552,307
Charge for the year	895,416	559,421
Charge off	(158,578)	(107,939)
Write back for the year	(294,800)	(207,612)
Unwind of discount	(51,487)	(24,363)
Exchange differences and other	(95)	5,174
Balance at the end of the year	**2,167,444**	**1,776,988**

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 2011 and 2010, the detail of impairment is as follows:

(in thousands of euro)

	31.12.2011						
	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	13,552,504	1,776,056	23,337,543	77,781	36,890,047	1,853,837	35,036,210
Mortgage loans	2,181,624	146,301	9,423,673	12,718	11,605,297	159,019	11,446,278
Consumers loans - other	538,378	143,144	2,177,104	11,444	2,715,482	154,588	2,560,894
Total	**16,272,506**	**2,065,501**	**34,938,320**	**101,943**	**51,210,826**	**2,167,444**	**49,043,382**

(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**

Loans with impairment losses calculated on an individual basis includes, loans with objective evidence of impairment, overdue loans for over 30 days and restructured loans.

As at 31 December 2011, loans and advances includes euro 178 017 thousand of restructured loans (31 December 2010: euro 144 585 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 during the year ended December 2011 in relation to these loans amounted to euro 759.0 million (31 December 2010: euro 382.4 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)

	31.12.2011	31.12.2010
Fixed interest rate	6,955,398	5,776,929
Variable interest rate	44,255,428	46,829,182
	51,210,826	**52,606,111**

An analysis of finance lease loans by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Gross investment in finance leases, receivable		
Up to 1 year	491,511	550,083
From 1 to 5 years	1,410,375	1,473,693
More than 5 years	1,535,201	1,861,778
	3,437,087	3,885,554
Unearned future finance income on finance leases		
Up to 1 year	110,457	80,102
From 1 to 5 years	294,738	222,904
More than 5 years	27,241	200,221
	432,436	503,227
Net investment in finance leases		
Up to 1 year	381,054	469,981
From 1 to 5 years	1,115,637	1,250,789
More than 5 years	1,507,960	1,661,557
	3,004,651	**3,382,327**
Impairment	(97,190)	(89,663)
	2,907,461	3,292,664

As at 31 December 2011 and 2010 there are no finance leases which represent individually more than 5% of the total minimum lease payments. There are no finance leases with contingent rents.

NOTE 23 – Held-to-Maturity Investments

The held-to-maturity investments can be analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Bonds and other fixed income securities		
Issued by government and public entities	805,437	827,260
Issued by other entities	768,061	1,681,634
	1,573,498	2,508,894
Impairment losses	(32,316)	(50,094)
	1,541,182	2,458,800

As at 31 December 2011 and 2010, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	401,785	160,750
3 to 12 months	283,473	180,228
1 to 5 years	273,232	1,211,642
More than 5 years	615,008	956,274
	1,573,498	2,508,894

The analysis of the held-to-maturity investments by quoted and unquoted securities is presented as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	803,589	1,848	805,437	824,982	2,278	827,260
Issued by other entities	205,017	530,728	735,745	928,651	702,889	1,631,540
	1,008,606	532,576	1,541,182	1,753,633	705,167	2,458,800

The changes occurred in impairment losses of held-to-maturity investments are presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	50,094	34,565
Charge for the year	15,500	46,744
Charge off	(33,131)	(30,702)
Exchange differences and other	(147)	(513)
Balance at the end of the year	**32,316**	**50,094**

The securities pledged as collateral by the Group are analysed in Note 40.

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 value	On the transfer date					Market value in December 2008
		Book Value	Fair value Reserve		Value of future cash flows [a]	Effective rate [b]	
			Positive	Negative			
Available-for-sale financial assets	551,897	522,715	424	(29,607)	701,070	5.75%	485,831
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**

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, when applicable, and the maturity date of the financial asset

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)

	31.12.2011	31.12.2010
Assets and liabilities at fair value through profit or loss		
Effect on the profit and loss	(1,347)	(4,838)
Tax effect	183	524
	(1,164)	**(4,314)**
Available-for-sale financial assets		
Effect on the fair value reserve	(16,329)	8,269
Tax effect	(4,308)	(2,031)
	(12,021)	**6,238**

The reclassification of financial assets held-for-trading as held-to-maturity investments was performed following the amendment to IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures, adopted by the Regulation (EU) n.º 1004/2008 issued in 15 October 2008. 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.

Following the publication by the Bank of Portugal, in May 2011 OF Notice no. 3/2011, which has established new minimum levels for the Core Tier 1 ratio (9% at 31 December 2011 and 10% in 31 December 2012) and bearing in mind the need to achieve, from 2014, a stable funding ratio of 100%, according to the Memorandum of Economic and Financial Policies established between the Portuguese Government, the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF, the Group has decided during the second half of 2011 to sell a significant portion of the held-to-maturity investments portfolio. Under this decision, the securities to be sold were transferred to the available-for-sale financial assets portfolio and valued at market.

Taking into account the objectives underlying the reclassification and subsequent sale of those securities, it falls into the provisions of paragraph AG 22 of IAS 39 'Financial Instruments: Recognition and Measurement', not giving rise to contamination (tainting) of the remaining held-to-maturity investments portfolio. On this basis and once the Group has the intention and ability to hold the remaining securities until its maturity, they remain classified on the held-to-maturity investments portfolio.

The effects of the securities reclassification in the Group consolidated financial statements, at the transfer date, can be analyzed as follows:

(in thousands of euro)

Held-to-maturity investments				Available-for-sale financial assets			
Acquisition Value	Fair value Reserves a)	Impairment	Book value	Acquisition Value	Fair value Reserves	Impairment	Book value
584,923	(6,138)	(50)	578,735	584,923	(13,590)	(50)	571,283

a) Remaining value of the fair value reserves at the transfer date for the held-to-maturity investments portfolio occurred with reference to 1 June 2008

NOTE 24 – Derivatives for Risk Management Purposes

As at 31 December 2011 and 2010, the fair value of the derivatives for risk management purposes can be analysed as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives for risk management purposes						
Derivatives for risk management purposes - assets	210,027	300,063	510,090	255,908	191,396	447,304
Derivatives for risk management purposes - liabilities	(82,208)	(156,425)	(238,633)	(88,057)	(140,887)	(228,944)
	127,819	**143,638**	**271,457**	**167,851**	**50,509**	**218,360**
Fair value component of assets and liabilities being hedged						
Financial assets						
Loans and advances to customers	23,839	-	23,839	21,140	-	21,140
	23,839	**-**	**23,839**	**21,140**	**-**	**21,140**
Financial liabilities						
Deposits from banks	(56,254)	-	(56,254)	(29,639)	(538)	(30,177)
Due to customers	(838)	22,751	21,913	(3,323)	(14,760)	(18,083)
Debt securities issued	(38,497)	154,872	116,375	(42,004)	119,308	77,304
Subordinated debt	-	-	-	(863)	-	(863)
	(95,589)	**177,623**	**82,034**	**(75,829)**	**104,010**	**28,181**
	(71,750)	**177,623**	**105,873**	**(54,689)**	**104,010**	**49,321**

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 2011 and 2010, the fair value hedge relationships present the following features:

(in thousands of euro)

31.12.2011							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (1)	Changes in the fair value of the derivative in the year	Fair value component of the hedged item (2)	Changes in the fair value of the hedged item in the year (2)
Interest Rate Swap/ Currency Interest Rate Swap	Loans and advances to customers	Interest rate and FX	740,420	(20,614)	(36,705)	23,839	(7,617)
Interest Rate Swap	Due to customers	Interest rate	4,417	1,978	(1,060)	(838)	918
Interest Rate Swap	Deposits from banks	Interest rate	186,300	53,435	28,658	(56,254)	(26,963)
Interest Rate Swap	Debt security issued	Interest rate	3,924,826	93,020	45,639	(38,497)	(13,344)
			4,855,963	**127,819**	**36,532**	**(71,750)**	**(47,006)**

(1) Includes accrued interest
(2) Attributable to the hedged risk

(in thousands of euro)

31.12.2010								
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivative (1)**	**Changes in the fair value of the derivative in the year**	**Fair value component of the hedged item (2)**	**Changes in the fair value of the hedged item in the year (2)**
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	Due to customers	Interest rate	192,444	31,622	5,260	(29,639)	(5,596)
Interest Rate Swap	Deposits from banks	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) Includes accrued interest
(2) Attributable to the hedged risk

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 (See Note 7).

As at 31 December 2011, the ineffectiveness of the fair value hedge operations amounted to a cost of euro 10.5 million (31 December 2010: profit of euro 8.8 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)

31.12.2011								
Derivative	**Financial assets/ liabilities economically hedged**	**Derivative**			**Assets/liabilities associated**			
		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)**
	Liabilities							
Interest Rate Swap	Due to customers	5,858,000	130,251	46,477	18,824	41,092	7,296,870	7,315,694
Interest Rate Swap/ FX Forward	Debt security issued	1,822,391	77,431	34,408	120,593	6,971	278,702	395,878
Credit Default Swap	Debt security issued	205,778	(33,905)	(37,349)	22,287	14,560	219,839	238,524
Equity Swap	Debt security issued	947,585	(33,873)	(25,271)	15,371	23,203	334,881	349,886
Equity Option	Debt security issued	78,719	3,734	3,285	548	517	107,521	110,039
		8,912,473	143,638	21,550	177,623	86,343	8,237,813	8,410,021

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity

(in thousands of euro)

31.12.2010								
Derivative	**Financial assets/ liabilities economically hedged**	**Derivative**			**Assets/liabilities associated**			
		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	Due to customers	5,500	(124)	(142)	14	11	2,485	2,500
Interest Rate Swap	Debt security issued	3,373,000	48,087	19,089	(14,760)	(30,142)	3,995,152	4 013,920
Interest Rate Swap/ FX Forward	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

As at 31 December 2011, 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 202.3 thousand of cumulative profits (31 December 2010: euro 151.4 thousand).

As at 31 December 2011 and 2010, the operations with derivatives for risk management purposes by period to maturity, can be analysed as follows:

(in thousands of euro)

	31.12.2011		31.12.2010	
	Notional	Fair Value	Notional	Fair Value
Up to 3 months	3,014,403	24,059	2,944,529	37,054
3 to 12 months	2,688,223	38,159	845,832	3,068
1 to 5 years	7,024,951	82,709	7,144,996	95,559
More than 5 years	1,040,859	126,530	2,128,977	82,679
	13,768,436	**271,457**	**13,064,334**	**218,360**

NOTE 25 – Non-Current Assets and Liabilities Held for Sale

As at 31 December 2011 and 2010, this balance is analysed as follows:

(in thousands of euro)

	31.12.2011		31.12.2010	
	Assets	Liabilities	Assets	Liabilities
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	291,248	140,950	21,423	5,411
Property held for sale	1,531,180	-	641,112	-
Equipment	2,203	-	1,840	-
Other fixed assets	3,501	-	-	-
	1,536,884	-	642,952	-
Impairment losses	(181,449)	-	(89,825)	-
	1,355,435	**-**	**553,127**	**-**
	1,646,683	**140,950**	**574,550**	**5,411**

The amounts presented refer to (i) investments in entities controlled by the Group, which have been acquired exclusively with the purpose of being sold in the short term, and (ii) assets acquired in exchange for loans and discontinued branches available for immediate sale.

As at 31 December 2011, the amount of property held for sale includes euro 16 392 thousand (31 December 2010: euro 12 848 thousand) related to discontinued branches, in relation to which the Group recognised an impairment loss amounting to euro 7 699 thousand (31 December 2010: euro 3 924 thousand).

The changes occurred in impairment losses are presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	89,825	52,666
Charge for the year	127,178	58,489
Charge off	(31,057)	(20,291)
Write back for the year	(4,116)	(965)
Exchange differences and other	(381)	(74)
Balance at the end of the year	**181,449**	**89,825**

The changes occurred during 2011 and 2010 in non-current assets held for sale are presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	642,952	423,767
Additions	1,077,644	456,543
Sales	(190,452)	(236,562)
Other	6,740	(796)
Balance at the end of the year	**1,536,884**	**642,952**

Following the sale occurred during the year ended 31 December 2011, the Group registered a loss of euro 12 207 thousand (31 December 2010: euro 12 727 thousand).

NOTE 26 – Property and Equipment

As at December 2011 and 2010, this balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Property		
For own use	445,236	445,224
Improvements in leasehold property	240,603	238,604
Other	842	1,237
	686,681	685,065
Equipment		
Computer equipment	292,982	288,067
Fixtures	140,216	134,134
Furniture	128,340	124,373
Security equipment	38,043	35,655
Office equipment	35,597	35,696
Motor vehicles	11,756	8,955
Other	4,929	5,227
	651,863	632,107
Other	643	765
	1,339,187	1,317,937
Work in progress		
Improvements in leasehold property	1,422	1,577
Property for own use	318,160	250,609
Equipment	6,643	9,597
Other	260	151
	326,485	261,934
	1,665,672	1,579,871
Accumulated depreciation	(813,994)	(770,834)
	851,678	809,037

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 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
Acquisitions	6,380	22,184	(106)	77,299	105,757
Disposals	(4,680)	(12,077)	-	(4)	(16,761)
Transfers [a]	(168)	8,311	(21)	(13,794)	(5,672)
Exchange differences and other	84	1,338	5	1,050	2,477
Balance as at 31 December 2011	686,681	651,863	643	326,485	1,665,672
Depreciation					
Balance as at 31 December 2009	258,191	461,303	279	-	719,773
Depreciation of the year	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
Acquisitions	21,233	40,487	9	-	61,729
Disposals	(4,571)	(11,995)	-	-	(16,566)
Transfers [a]	(1,355)	(48)	-	-	(1,403)
Exchange differences and other	(1,067)	459	8	-	(600)
Balance as at 31 December 2011	288,649	525,076	269	-	813,994
Net amount as at 31 December 2011	398,032	126,787	374	326,485	851,678
Net amount as at 31 December 2010	410,656	135,934	513	261,934	809,037

(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)

	31.12.2011	31.12.2010
Gross investment in finance leases, payable		
Up to 1 year	15	23
1 to 5 years	16	46
	31	69
Overdue interest		
Up to 1 year	3	4
1 to 5 years	1	4
	4	8
Overdue loans		
Up to 1 year	12	19
1 to 5 years	15	42
	27	61

NOTE 27 – Intangible Assets

As at 31 December 2011 and 2010, this balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Goodwill	**97,739**	**95,616**
Internally developed		
Software	47,644	38,360
Acquired to third parties		
Software	610,469	561,677
Other	917	1,312
	611,386	**562,989**
Work in progress	**26,413**	**35,732**
	783,182	**732,697**
Accumulated amortisation	**(543,222)**	**(497,360)**
Impairment losses	**(9,628)**	**(1,800)**
	230,332	**233,537**

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 2.14).

Goodwill is registered in accordance with the accounting policy described in Note 2.2. and is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Subsidiaries		
ES Investment Holding [(a)]	47,449	46,046
ES Gestion [(b)]	22,142	2,459
Gespastor	-	19,000
Aman Bank	16,046	15,533
Concordia	1,605	1,800
Other	2,604	2,885
Other cash-generating units		
Leasing and Factoring	7,893	7,893
	97,739	**95,616**
Impairment losses	**(9,628)**	**(1,800)**
	88,111	**93,816**

(a) Company that holds Execution Noble
(b) Includes the amount of euro 2,459 thousand and euro 19,683 thousand related to Inversión Bank and Gespastor, respectively, companies which were incorporated by fusion in ES Gestion, after the acquisition

ES Investment Holding Limited

The recoverable amount of ES Investment Holding Limited has been determined using cash flow/dividends predictions based on (i) the financial budget approved by management covering a nine-year period, (ii) a terminal growth rate in line with the estimated nominal growth for the country where the company is located and (iii) a discount rate including a risk premium appropriated to the estimated future cash-flows.

The nine-year period for estimating the future cash-flows reflect the fact that the company was acquired in late 2010 and its business strategy is being redefined. It is expected that the company achieves a maturity stage only at the end of that time period.

Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill.

ES Gestion

On 7 October 2011, Banco Popular and Banco Pastor announced their intention to begin a merger process. The merger of Banco Popular with Banco Pastor will have significant impacts on the implementation of the exclusive marketing agreement between ESAF - Espirito Santo Financial Assets SGPS, SA (through Gespastor) and Banco Pastor and, consequently, on the strategy outlined for the asset management activity of BES Group in the Spanish market. The situation is being monitored by the Group. According to the referred agreement, compensation payments for any losses that the Group may incur with this business unit are guaranteed, reason why no impairment has been recognized on the carrying amount of this unit including its goodwill.

Aman Bank

On 31 December 2011, the Group recognised an impairment of euro 8 023 thousand in goodwill recorded on the date of acquisition of Aman Bank. The impairment reflects the changes of the estimated future cash flows expected by the Group in this entity as a result of the political situation lived in Libya during 2011.

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 2009	**17,287**	**545,817**	**1,301**	**27,549**	**591,954**
Acquisitions:					
Internally developed	-	-	-	8,899	8,899
Acquired from third parties [(a)]	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**
Acquisitions:					
Internally developed	-	-	-	9,178	9,178
Acquired from third parties	-	12,521	-	27,083	39,604
Disposals	-	(360)	(409)	-	(769)
Transfers	-	45,088	-	(45,088)	-
Exchange differences and other	2,123	827	14	(492)	2,472
Balance as at 31 December 2011	**97,739**	**658,113**	**917**	**26,413**	**783,182**
Amortisations					
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**
Amortisations of the year	-	46,068	129	-	46,197
Disposals	-	(57)	(409)	-	(466)
Exchange differences and other	-	122	9	-	131
Balance as at 31 December 2011	**-**	**542,344**	**878**	**-**	**543,222**
Impairment					
Balance as at 31 December 2009	**1,743**	**-**	**-**	**-**	**1,743**
Exchange differences and other	57	-	-	-	57
Balance as at 31 December 2010	**1,800**	**-**	**-**	**-**	**1,800**
Impairment losses [(b)]	8,023	-	-	-	8,023
Exchange differences and other	(195)	-	-	-	(195)
Balance as at 31 December 2011	**9,628**	**-**	**-**	**-**	**9,628**
Net amount as at 31 December 2011	**88,111**	**115,769**	**39**	**26,413**	**230,332**
Net amount as at 31 December 2010	**93,816**	**103,826**	**163**	**35,732**	**233,537**

(a) 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
(b) Relates to impairment of Aman Bank goodwill

NOTE 28 – 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	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
BES VIDA	5,658,690	8,013,503	5,601,926	7,860,505	56,764	152,998	390,722	1,157,310	(107,968)	37,329
ES VÉNÉTIE	1,636,829	1,631,953	1,471,545	1,473,339	165,284	158,614	67,785	63,644	10,000	8,485
LOCARENT	321,581	344,148	314,938	339,177	6,643	4,971	97,798	95,107	3,017	1,570
BES SEGUROS	131,184	120,028	111,531	95,738	19,653	24,290	66,344	66,183	3,324	4,015
ESEGUR	41,679	48,794	31,524	38,554	10,155	10,240	54,478	48,264	600	1,000
EUROP ASSISTANCE	-	39,883	-	31,098	-	8,785	-	40,369	1,456	1,475
FUNDO ES IBERIA	14,252	18,824	266	15	13,986	18,809	298	2,626	(1,198)	1,947
SCI GEORGES MANDEL	11,292	11,198	11	12	11,281	11,186	980	947	610	515
BRB INTERNACIONAL	14,899	11,788	12,596	10,240	2,303	1,548	3,525	4,612	84	(120)
AUTOPISTA PEROTE-XALAPA	441,723	417,532	308,586	274,137	133,137	143,395	-	-	(223)	(514)
LUSOSCUT COSTA DE PRATA	-	504,386	-	450,672	-	53,714	-	19,254	-	7,922
LUSOSCUT BEIRA LITORAL E ALTA	-	958,226	-	800,794	-	157,432	-	26,068	-	14,509
LUSOSCUT GRANDE PORTO	-	738,043	-	652,655	-	85,388	-	16,251	-	7,899
ASCENDI GROUP	3,945,239	3,640,996	3,561,239	3,389,487	384,000	251,509	99,266	269,305	127,257	140,166
ASCENDI	-	45,394	-	46,915	-	(1,521)	-	-	-	(1,312)
EMPARK	773,857	730,904	626,861	594,657	146,996	136,247	182,274	16,703	357	7,315
AUVISA - AUTOVIA DE LOS VIÑEDOS	248,201	242,013	214,586	212,200	33,615	29,813	12,791	14,083	1,494	1,668
UNICRE	307,856	310,155	194,012	195,880	113,844	114,275	241,045	255,568	8,745	6,469
MOZA BANCO	92,737	-	64,908	-	27,829	-	11,720	-	595	-
RODI SINKS & IDEAS	45,211	45,211	24,196	24,196	21,015	21,015	16,719	22,401	902	3,665
SCUTVIAS	718,866	802,170	647,086	729,831	71,780	72,339	116,590	96,488	12,663	10,907

Note: Information adjusted for consolidation purposes

(in thousands of euro)

	Participation Cost		Economic Interest		Book Value		Share of profits of associates	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
BES VIDA [a]	537,497	474,997	50.00%	50.00%	200,000	387,394	(193,261) [c]	15,469
ES VÉNÉTIE	42,293	42,293	42.69%	42.69%	70,700	67,853	4,269	3,622
LOCARENT	2,967	2,967	50.00%	50.00%	3,632	2,796	1,509	785
BES SEGUROS	3,749	3,749	25.00%	25.00%	4,911	6,070	831	1,004
ESEGUR	9,634	9,634	44.00%	44.00%	11,312	11,350	264	440
EUROP ASSISTANCE	-	1,147	-	23.00%	-	2,021	335	339
FUNDO ES IBERIA	8,708	8,708	38.69%	38.69%	5,262	7,287	(292)	310
SCI GEORGES MANDEL	2,401	2,401	22.50%	22.50%	2,538	2,518	137	116
BRB INTERNACIONAL	10,659	10,659	24.93%	24.93%	335	243	92	86
AUTOPISTA PEROTE-XALAPA [b]	36,678	35,056	14.33%	8.19%	26,628	28,679	209	(103)
LUSOSCUT COSTA DE PRATA	-	-	-	-	-	-	-	1,271
LUSOSCUT BEIRA LITORAL E ALTA	-	-	-	-	-	-	-	2,267
LUSOSCUT GRANDE PORTO		-	-	-	-	-	-	- 958
ASCENDI GROUP [b]	168,310	163,341	28.66%	16.38%	169,900	170,259	7,130	6,918
ASCENDI	-	-	-	-	-	-	-	(525)
EMPARK [b]	55,013	55,013	15.92%	9.17%	54,661	54,003	(698)	772
AUVISA - AUTOVIA DE LOS VIÑEDOS	41,056	41,056	35.83%	20.48%	38,304	37,081	(5)	31
UNICRE [b]	11,497	11,497	17.50%	17.50%	19,923	19,998	1,530	8,479
MOZA BANCO	9,800	-	25.10%	-	11,178	-	149	-
RODI SINKS & IDEAS	1,240	1,240	24.81%	24.81%	7,528	7,528	-	1,432
SCUTVIAS [b]	50,669	50,669	15.93%	9.11%	50,669	50,669	-	-
Other	130,103	110,541	-	-	129,518	106,159	2,570	(6,496)
	1,122,274	**1,024,968**			**806,999**	**961,908**	**(175,231)**	**37,175**

a) Includes goodwill in the amount of euro 267 440 thousand and value-in-force in the amount of euro 40 450 thousand (31 December 2010: goodwill euro 267 440 thousand and value-in-force in the amount of euro 43 454 thousand). This investment is net of impairment in the amount of euro 136 275 thousand recognised in the year 2011

b) 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

c) Includes (i) the appropriated value of BES Vida in the amount of euro 54 million, (ii) the recognised impairment of euro 136.3 million and (iii) value-in-force amortisation in the amount of euro 3.0 million

The movement occurred in this balance is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	**961,908**	**793,815**
Disposals	(2,021)	(99,682)
Acquisitions (see Note 1)	98,191	292,619
Share of profit of associates	(38,956)	37,175
Impairment in associates	(136,275)	-
Fair value reserve from investments in associates [a]	(58,128)	(48,485)
Dividends received	(4,193)	(15,927)
Exchange differences and other	(13,527)	2,393
Balance at the end of the year	**806,999**	**961,908**

(a) Change in fair value reserves from BES Vida

During the year ended in 31 December 2011, the Group recognised an impairment in the amount of euro 136 275 thousand regarding the investment in BES Vida, corresponding to the difference between the carrying amount of the investment and the estimated recoverable amount.
The recoverable amount of BES Vida, as at 31 December 2011, was determined based on the Appraisal Value method. This methodology derives from Market Consistent Embbeded Value and market value attributable to the new business. Market Consistent Embbeded Value is a specific method of evaluating life insurance companies to determine the fair value of its contracts portfolio (insurance contracts and investment contracts) and is consistent with the general principles of the method of discounted future profits.

NOTE 29 – Other Assets

As at 31 December 2011 and 2010, the balance other assets is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Debtors		
Deposit Accounts	1,605,033	1,009,362
Recoverable government subsidies on mortgages loans	48,892	42,264
Debtors for unrealised capital of subsidiaries	7,000	3,500
Loans to companies in which the Group has a minority interest	214,203	127,520
Public sector	136,749	124,978
Other debtors	414,827	424,321
	2,426,704	**1,731,945**
Impairment losses on debtors	(47,861)	(15,047)
	2,378,843	**1,716,898**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	11,122	11,979
Other assets	84,700	87,371
	95,822	**99,350**
Accrued income	**52,718**	**81,814**
Prepayments and deferred costs	**122,849**	**105,654**
Other sundry assets		
Foreign exchange transactions pending settlement	2,489	149,578
Stock exchange transactions pending settlement	171,918	666,499
Other transactions pending settlement	99,202	377,951
	273,609	**1,194,028**
Assets recognised on pensions and health benefits	**107,014**	**947**
	3,030,855	**3,198,691**

As at 31 December 2011, Loans to companies in which the Group has a non-controlling interest include the amount of euro 100 million related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2010: euro 110 million) and euro 95.8 million related to other entities within the venture capital business of the Group which are provisioned in the amount of euro 31.3 million.

As at 31 December 2011, the balance prepayments and deferred costs includes the amount of euro 66 199 thousand (31 December 2010: euro 62 719 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)

	31.12.2011	31.12.2010
Balance at the begining of the year	**15,047**	**18,733**
Charge for the year	39,165	6,167
Charge off	(2,916)	(5,938)
Write back for the year	(2,648)	(7,556)
Exchange differences and other	(787)	3,641
Balance at the end of the year	**47,861**	**15,047**

NOTE 30 – Deposits from Central Banks

The balance deposits from central banks is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
From the European System of Central Banks		
Inter-bank money market	-	264,500
Deposits	22,204	153,806
Other funds	8,764,000	4,800,000
	8,786,204	5,218,306
From other Central Banks		
Inter-bank money market	21,650	-
Deposits	1,205,859	2,438,247
Repurchase agreements	-	308,267
	1,227,509	2,746,514
	10,013,713	7,964,820

As at 31 December 2011 and 2010, Other funds from the European System of Central Banks in the amount of euro 8 764 million and euro 5 065 million, respectively, are covered by Group's financial assets (see Note 40).

As at 31 December 2011, the balance Deposits From other Central Banks includes euro 1 098 million of deposits made by the Central Bank of Angola (31 December 2010: euro 1 665 million).

As at 31 December 2011 and 2010, the analysis of deposits from Central Banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	4,610,827	3,815,995
3 to 12 months	401,497	4,148,825
1 to 5 years	5,001,389	-
	10,013,713	7,964,820

NOTE 31 – Deposits from Banks

The balance deposits from banks is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Domestic		
Loans	924	32,495
Inter-bank money market	15,001	18,650
Deposits	465,654	339,774
Very short term funds	251,045	44,148
Repurchase Agreements	170,850	3,858
Other funds	5,279	1,418
	908,753	440,343
International		
Deposits	854,289	1,434,200
Loans	2,206,392	2,123,528
Very short term funds	121,259	201,357
Repurchase agreements	1,847,600	1,874,668
Other funds	301,067	306,496
	5,330,607	5,940,249
	6,239,360	6,380,592

As at 31 December 2011, this balance includes the amount of euro 218 524 thousand (31 December 2010: 558 463 thousand) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 44).

As at 31 December 2011 and 2010 the analysis of deposits from banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	3,304,307	1,355,063
3 to 12 months	343,026	2,478,986
1 to 5 years	1,760,271	1,338,735
More than 5 years	831,756	1,207,808
	6,239,360	6,380,592

NOTE 32 – Due to Customers

The balance due to customers is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Repayable on demand		
Demand deposits	8,573,096	8,676,475
Time deposits		
Time deposits	23,397,235	19,426,116
Other	110,210	133,543
	23,507,445	19,559,659
Savings accounts		
Pensioners	15,049	29,751
Other	1,470,261	1,758,470
	1,485,310	1,788,221
Other funds		
Repurchase agreements	267,801	436,619
Other	372,510	358,246
	640,311	794,865
	34,206,162	30,819,220

This balance includes the amount of euro 7 297 thousand (31 December 2010: euro 4 027 thousand) of deposits recognised in the balance sheet at fair value through profit or loss (see Note 44).

The analysis of the amounts due to customers by the period to maturity is as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Repayable on demand	8,573,096	8,676,475
With agreed maturity		
Up to 3 months	14,310,762	9,017,925
3 to 12 months	6,556,146	8,353,630
1 to 5 years	4,640,082	4,644,123
More than 5 years	126,076	127,067
	25,633,066	22,142,745
	34,206,162	30,819,220

NOTE 33 – Debt Securities Issued

The balance debt securities issued is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Euro Medium Term Notes (EMTN)	9,735,468	11,575,244
Certificates of deposit	644,103	1,748,683
Bonds	3,258,824	4,049,569
Covered bonds	933,732	2,333,906
Other	3,880,521	4,402,537
	18,452,648	24,109,939

As at 31 December 2011, bonds issued by the Group includes the amount of euro 1 572 million of debt securities issued with a guarantee from the Portuguese Republic (31 December 2010: euro 1 584 million).

This balance includes the amount of euro 1 233 962 thousand (31 December 2010: euro 823 416 thousand) related with debt securities issued recorded in the balance sheet at fair value through profit or loss (see Note 44).

During the year ended 31 December 2011, BES Group issued covered bonds in the amount of euro 4 290 million, under the Covered Bonds Programme, which has a maximum amount of euro 10 000 million, as follows:

Description	Nominal value (in thousands of euro)	Book value (in thousands of euro)	Issue date	Maturity date	Interest payment	Interest rate	Rating
BES Covered Bonds 3.375%	1,000,000	893,155	09/11/17	15/02/17	Annual	3.375%	Baa3
BES Covered Bonds DUE JUL 17	750,000	132	10/07/07	17/07/09	Annual	6 month Euribor + 0.60%	Baa3
BES Covered Bonds 21/07/2017	1,250,000	-	10/07/21	17/07/21	Annual	6 month Euribor + 0.60%	Baa3
BES Covered Bonds DUE 4.6%	40,000	40,445	10/12/15	17/01/26	Annual	Fixed Rate 4.6%	Baa3
BES Covered Bonds HIPOT. 2018	1,250,000	-	11/01/25	18/01/25	Annual	6 month Euribor + 0.60%	Baa3

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 13/2006 of the Bank of Portugal.

As at 31 December 2011, the mortgage loans that collateralise these covered bonds amount to euro 5 305.9 thousand (31 December 2010: euro 4 963.1 thousand) (see Note 22).

The changes occurred in debt securities issued during the year ended 31 December 2011 are analysed as follows:

(in thousands of euro)

	Balance as at 31 December 2010	Issues	Repayments	Net repurchase	Other movements a)	Balance as at 31 December 2011
Euro Medium Term Notes (EMTN)	11,575,244	1,423,282	(2,402,551)	(629,713)	(230,794)	9,735,468
Certificates of deposit	1,748,683	-	(1,106,299) b)	-	1,719	644,103
Bonds	4,049,569	30,000	(650,307)	(36,530)	(133,908)	3,258,824
Covered bonds	2,333,906	-	(1,250,000)	(123,987)	(26,187)	933,732
Other	4,402,537	7,642,342	(7,757,957)	(27,596)	(378,805)	3,880,521
	24,109,939	**9,095,624**	**(13,167,114)**	**(817,826)**	**(767,975)**	**18,452,648**

a) Other include accrued interest, fair value hedge and fair value adjustments and foreign translation exchanges adjustments
b) Certificates of deposit are presented at their net value, considering its short term maturity

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following acquisitions, as at 31 December 2011 and 31 December 2010, the Group recongnised a profit of euro 155.3 million and of euro 29.1 million respectively (see Note 11 and 36).

The analysis of debt securities issued by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	6 038 482	6 841 507
3 to 12 months	761 034	1 571 931
1 to 5 years	7 693 938	11 319 948
More than 5 years	3 959 194	4 376 553
	18 452 648	**24 109 939**

The main characteristics of debt securities issued during the year ended 31 December 2011, are presented as follows:

(in thousands of euro)

31.12.2011							
Issuer	**Designation**		**Currency**	**Issue date**	**Book value**	**Maturity**	**Interest rate**
BES	BES-E.RENDA 4%	a)	EUR	2005	8,890	2013	Fixed rate 4.15% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years.
BES	BIC E.RENDA 4%	a)	EUR	2005	3,111	2013	Fixed rate 4.15% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years.
BES	BES ER 4% ABR05	a)	EUR	2005	2,473	2013	Fixed rate 4.15% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years.
BES	BES ER 4% ABR05	a)	EUR	2005	1,860	2013	Fixed rate 4.15% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years.
BES	BES ER 3.75% 0805	a)	EUR	2005	2,566	2013	Fixed rate 4.15% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years.
BES	BES COMMODIT 7%	a)	EUR	2005	1,136	2014	Fixed rate - 7.00%
BES	BES DUE 2012		EUR	2007	1,000,613	2012	3 months Euribor + 0.10%
BES	BES DUE 2013		EUR	2007	444,538	2013	3 months Euribor + 0.125%
BES	BES DUE JUN 14		EUR	2007	434,561	2014	3 months Euribor + 0.15%
BES	BES 3.75%		EUR	2009	1,571,626	2012	Fixed rate - 3.75%
BES	BES RENDIM.CR.		EUR	2009	191	2012	6 months Euribor + 0.60%
BES	BES REND.CR.		EUR	2009	14,554	2012	Fixed rate - 3.85%
BES	BES DUE 2012		EUR	2009	308,587	2012	Fixed rate 4.43%
BES	BES 5.625% 2014		EUR	2009	1,575,436	2014	Fixed rate - 5.63%
BES	BES CR.OUT.09	a)	EUR	2009	1,192	2012	b)
BES	BES R.FIXO 1		EUR	2009	7,745	2012	Fixed rate 4.05%
BES	BES R.FIXO 2		EUR	2009	7,846	2012	Fixed rate 4.05%
BES	BES R.FIXO 3		EUR	2009	7,615	2012	Fixed rate 4.05%
BES	BES R.FIXO 4		EUR	2009	7,605	2012	Fixed rate 4.05%
BES	BES R.FIXO 5		EUR	2009	6,840	2012	Fixed rate 4.05%
BES	BES R.FIXO 6		EUR	2009	571	2012	Fixed rate 3.45%
BES	BES R.FIXO 7		EUR	2009	502	2012	Fixed rate 3.45%
BES	BES R.FIXO 8		EUR	2009	502	2012	Fixed rate 3.45%
BES	BES R.FIXO 9		EUR	2009	503	2012	Fixed rate 3.45%
BES	BES R.FIXO 10		EUR	2009	503	2012	Fixed rate 3.45%
BES	BES 3.375%		EUR	2009	893,155	2015	Fixed rate 3.375%
BES	BES DUE 02/2013		EUR	2009	835,053	2013	3 months Euribor + 1%
BES	BES DUE 3.875%		EUR	2010	587,778	2015	Fixed rate 3.875%
BES	BES DUE MAR.12		EUR	2010	150,238	2012	3 months Euribor + 0.94%
BES	BES DUE JUL 17		EUR	2010	132	2017	6 months Euribor + 0.60%
BES	BES DUE 4.6%		EUR	2010	40,445	2017	Fixed rate 4.6%
BES	BES DUE JULY 16		EUR	2011	83,883	2016	Fixed rate 6.875%
BES	BES 4.95% 2014		EUR	2011	567	2014	3 months Euribor + 4.95%
BES	BES DUE 27/8/13		EUR	2011	40,186	2013	3 months Euribor + 3%
BES	BES PORTUGAL NO	a)	EUR	2011	15,824	2014	6 months Euribor + 3.5%
BES	BES 3% 16/12/20		EUR	2011	57,233	2021	Fixed rate 3%
BES	BES PORTUGAL	a)	EUR	2011	17,275	2014	6 months Euribor + 3.5%
BES (Cayman branch)	BIC CAYMAN 18 2001		EUR	2001	51,852	2012	Fixed rate 5.83%
BES (Cayman branch)	BIC CAYMAN 20 2001		EUR	2001	325	2012	Fixed rate 5.94%
BES (Cayman branch)	BIC CAYMAN 23 2001		EUR	2001	79,495	2013	Fixed rate 6.03%
BES (Cayman branch)	BIC CAYMAN 25 2001		EUR	2001	79,988	2014	Fixed rate 6.02%
BES (Cayman branch)	BIC CAYMAN 27 2001		EUR	2001	49,415	2015	Fixed rate 6.09%
BES (Cayman branch)	BIC CAYMAN 1 2002		EUR	2002	54,571	2012	Fixed rate 5.92%
BES (Cayman branch)	BIC CAYMAN 2 2002	a)	EUR	2002	6,159	2012	Fixed rate 4.65%
BES (Cayman branch)	BES CAYMAN - Cupão Zero		EUR	2002	10,399	2027	Zero Coupon - Effective rate 5.74%
BES (Cayman branch)	BES CAYMAN ZC 02/18/2028		EUR	2003	12,921	2028	Zero Coupon - Effective rate 5.50%
BES (Cayman branch)	BES CAYMAN Step Up 07/25/13		USD	2003	4,287	2013	StepUp (1st coupon 1.50%)
BES (Cayman branch)	BES CAYMAN Step Up 08/27/13		EUR	2003	60,039	2013	StepUp (1st coupon 3.00%)
BES (Cayman branch)	BES CAYMAN Step Up 09/02/13		EUR	2003	79,700	2013	StepUp (1st coupon 3.00%)
BES (Cayman branch)	BES CAYMAN Step Up 10/07/13		EUR	2003	79,237	2013	StepUp (1st coupon 3.10%)
BES (Cayman branch)	BES CAYMAN - Cupão Zero		EUR	2003	30,698	2028	Zero Coupon - Effective rate 5.81%
BES (Cayman branch)	BES CAYMAN Step Up 07/21/14		USD	2004	60,091	2014	StepUp (1st coupon 2.07%)
BES (Cayman branch)	BES CAYMAN ZC 28/03/2033		EUR	2008	34,977	2033	Zero Coupon - Effective rate 5.69%
BES (Spain branch)	Cédulas Hipotecarias	a)	EUR	2008	153,769	2014	Fixed rate 4.5%
BES (Spain branch)	Cédulas Hipotecarias	a)	EUR	2008	80,368	2014	Fixed rate 4%
BES (Spain branch)	Cédulas Hipotecarias	a)	EUR	2008	85,046	2016	Fixed rate 4.25%
BES (London branch)	Certificados de depósito	a)	USD	2010	602,485	2012	4.79% - 5.47%
BES (New York branch)	Certificados de depósito		USD	2010	38,720	2012	4,41% - 5,53%
BES Azores	BES AÇOR.SET.09		EUR	2009	8	2012	3 months Euribor + 1.5%
BES Finance	EMTN 37		EUR	2004	28,842	2029	Zero Coupon - Effective rate 5.30%
BES Finance	EMTN 39		EUR	2005	100,372	2015	3 months Euribor + 0.23%
BES Finance	EMTN 40	a)	EUR	2005	127,589	2035	c)
BES Finance	EMTN 56		EUR	2009	34,078	2043	Zero Coupon
BES Finance	EMTN 57		EUR	2009	32,189	2044	Zero Coupon
BES Finance	EMTN 58		EUR	2009	30,430	2045	Zero Coupon
BES Finance	EMTN 59		EUR	2009	32,299	2042	Zero Coupon

(in thousands of euro)

31.12.2011							
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
BES Finance	EMTN 60		EUR	2009	43,748	2040	Zero Coupon
BES Finance	EMTN 61		EUR	2009	32,092	2041	Zero Coupon
BES Finance	EMTN 62		EUR	2009	51,292	2039	Zero Coupon
BES Finance	EMTN 63		EUR	2009	154,593	2039	Fixed rate 3%
BES Finance	EMTN 64		EUR	2009	143,091	2040	Fixed rate 3%
BES Finance	EMTN 65		EUR	2010	152,692	2040	Fixed rate 3%
BES Finance	EMTN 66		EUR	2010	167,234	2041	Fixed rate 3%
BES Finance	EMTN 67		EUR	2010	134,149	2041	Fixed rate 3%
BES Finance	EMTN 68		EUR	2010	11,794	2015	Fixed rate 4.25%
BES Finance	EMTN 69		EUR	2010	176,562	2042	Fixed rate 3%
BES Finance	EMTN 70		EUR	2010	223,489	2042	Fixed rate 3%
BES Finance	Exchangeable Bonds (Bradesco)	a)	USD	2010	640,224	2013	Fixed rate 1.625%
BES Finance	EMTN 71		EUR	2010	194,414	2043	Fixed rate 3%
BES Finance	Exchangeable Bonds (EDP)	a)	EUR	2010	455,106	2015	Fixed rate 3%
BES Finance	EMTN 72		EUR	2010	189,649	2044	Fixed rate 3%
BES Finance	EMTN 73		EUR	2010	88,547	2046	Fixed rate 3%
BES Finance	EMTN 74		EUR	2010	19,675	2012	Fixed rate 4.5%
BES Finance	EMTN 75		EUR	2010	19,725	2012	Fixed rate 4.5%
BES Finance	EMTN 76		EUR	2010	20,076	2012	Fixed rate 4.5%
BES Finance	EMTN 77		EUR	2010	20,076	2012	Fixed rate 4.5%
BES Finance	EMTN 78		EUR	2010	19,073	2012	Fixed rate 4.5%
BES Finance	EMTN 79		EUR	2010	110,431	2047	Fixed rate 3%
BES Finance	EMTN 81	a)	EUR	2010	6,996	2015	Fixed rate 3.19%
BES Finance	EMTN 82	a)	EUR	2010	6,996	2015	Fixed rate 3.19%
BES Finance	EMTN 83	a)	EUR	2010	6,996	2015	Fixed rate 3.19%
BES Finance	EMTN 84	a)	EUR	2010	6,945	2015	Fixed rate 3.19%
BES Finance	EMTN 85	a)	EUR	2010	6,790	2015	Fixed rate 3.19%
BES Finance	EMTN 80		EUR	2010	149,798	2048	Fixed rate 3%
BES Finance	EMTN 86	a)	EUR	2010	7,016	2012	Fixed rate 2.37%
BES Finance	EMTN 87	a)	EUR	2010	7,167	2012	Fixed rate 2.37%
BES Finance	EMTN 88	a)	EUR	2010	7,167	2012	Fixed rate 2.37%
BES Finance	EMTN 89	a)	EUR	2010	7,167	2012	Fixed rate 2.37%
BES Finance	EMTN 90	a)	EUR	2010	7,167	2012	Fixed rate 2.37%
BES Finance	EMTN 91	a)	EUR	2011	14,470	2013	Fixed rate 4.75%
BES Finance	EMTN 92	a)	EUR	2011	14,519	2013	Fixed rate 4.75%
BES Finance	EMTN 93	a)	EUR	2011	14,519	2013	Fixed rate 4.75%
BES Finance	EMTN 94	a)	EUR	2011	14,519	2013	Fixed rate 4.75%
BES Finance	EMTN 95	a)	EUR	2011	14,473	2013	Fixed rate 4.75%
BES Finance	EMTN 96	a)	EUR	2011	7,293	2015	Fixed rate 5.75%
BES Finance	EMTN 97	a)	EUR	2011	7,293	2015	Fixed rate 5.75%
BES Finance	EMTN 98	a)	EUR	2011	7,293	2015	Fixed rate 5.75%
BES Finance	EMTN 99	a)	EUR	2011	7,293	2015	Fixed rate 5.75%
BES Finance	EMTN 100	a)	EUR	2011	7,293	2015	Fixed rate 5.75%
BES Finance	EMTN 101	a)	EUR	2011	13,796	2013	Fixed rate 4.51%
BES Finance	EMTN 102	a)	EUR	2011	13,842	2013	Fixed rate 4.51%
BES Finance	EMTN 103	a)	EUR	2011	13,842	2013	Fixed rate 4.51%
BES Finance	EMTN 104	a)	EUR	2011	13,842	2013	Fixed rate 4.51%
BES Finance	EMTN 105	a)	EUR	2011	13,796	2013	Fixed rate 4.51%
BES Finance	EMTN 106	a)	EUR	2011	7,672	2015	Fixed rate 5.51%
BES Finance	EMTN 107	a)	EUR	2011	8,385	2015	Fixed rate 5.51%
BES Finance	EMTN 108	a)	EUR	2011	8,385	2015	Fixed rate 5.51%
BES Finance	EMTN 109	a)	EUR	2011	8,385	2015	Fixed rate 5.51%
BES Finance	EMTN 110	a)	EUR	2011	8,385	2015	Fixed rate 5.51%
BES Finance	EMTN 111		USD	2011	36,356	2038	Fixed rate 3%
BES Finance	EMTN 112	a)	EUR	2011	42,174	2014	Fixed rate 6%
BES Finance	EMTN 113	a)	EUR	2011	68,113	2021	Fixed rate 5%
BES Finance	EMTN 114	a)	EUR	2011	27,908	2021	Fixed rate 5%
BESI	BESI OBCX R.ACCRUAL TARN MAR2016		EUR	2006	1,429	2016	Fixed rate 6% + Range Accrual
BESI	BESI OB CX RENDIM STEP UP APR14		EUR	2006	3,610	2014	Growing fixed rate
BESI	BESI CERT DUALREND+EUSTOXX AUG14	a)	EUR	2006	2,898	2014	Fixed rate 6.6743% + Indexed to DJ Eurostoxx 50
BESI	BES INVEST BRASIL 5.75% MAY2012		USD	2009	111,084	2012	Fixed rate 5.75%
BESI	BES INVEST BRASIL		BRL	2010	513	2013	Fixed rate - 11.53%
BESI	BES INVEST BRASIL 5.625% MAR2015		USD	2010	368,320	2015	Fixed rate - 5.625%
BESI	BESI SEP2014 EQL LINKED	a)	EUR	2010	3,281	2014	d)
BESI	BESI SEP2014 ORIENTE IV EQL	a)	EUR	2010	10,535	2014	e)

(in thousands of euro)

31.12.2011							
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
BESI	53-LF LETRA FIN		BRL	2010	26,270	2013	Indexed to CDI
BESI	49-LCA - Letra		BRL	2011	40,290	2012	Indexed to CDI
BESI	BESI 1.8% GOLD APR2015	a)	EUR	2011	1,737	2015	Fixed rate 1.8% + Indexed to gold
ES Investment Plc	ESIP JUL2012 CMS LINKED EUR 5.5M		EUR	2004	3,429	2012	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	5,745	2024	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP CMS LINKED NOV2014		EUR	2004	2,725	2014	Fixed rate 6% + Indexed to CMS
ES Investment Plc	ESIP BESLEAS&INFLAT LINK MAY15		EUR	2005	8,997	2015	Indexed to HIPC Ex-Tobacco + f)
ES Investment Plc	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	1,256	2015	Range accrual
ES Investment Plc	ESIP RANGE ACCRUAL JUN15		EUR	2005	234	2015	Range accrual
ES Investment Plc	ESIP RANGE ACCRUAL AUG2013		EUR	2005	4,829	2013	Fixed rate 4.75% + Range accrual
ES Investment Plc	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1,237	2015	Fixed rate + Snowball + g)
ES Investment Plc	ESIP AGO05 SEP35 CALLABLE INV FL		EUR	2005	10,025	2035	12 months Euribor + h)
ES Investment Plc	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	2,970	2015	Fixed rate + Snowball + g)
ES Investment Plc	ESIP CALL RANGE ACCRUAL NOV2017		EUR	2005	1,108	2017	Range accrual
ES Investment Plc	ESIP 30CMS-2CMS LKD NOTE NOV2036		EUR	2005	13,837	2036	Fixed rate 7.44% + Indexed to CMS
ES Investment Plc	ESIP EUR12M+16 BP APR2016		EUR	2006	4,061	2016	12 months Euribor
ES Investment Plc	ESIP PORTUGAL TELECOM FIN LINKED	a)	EUR	2006	8,423	2012	f)
ES Investment Plc	ESIP JAN2017 INDEX BASKET LKD	a)	EUR	2007	4,516	2017	b)
ES Investment Plc	ESIP FEB2012 DEUTSCHE BANK LKD	a)	EUR	2007	2,834	2012	Indexed to Deutsche Telecom
ES Investment Plc	ESIP MAY14 EQUITY BASKT LINKED	a)	USD	2007	1,171	2014	i)
ES Investment Plc	ESIP JUN2012 BASKET LINKED	a)	EUR	2007	342	2012	j)
ES Investment Plc	ESIP JUL2012 LUSITANO BSK LINKED	a)	EUR	2007	3,467	2012	k)
ES Investment Plc	ESIP METAL INVESTMENT OCT2012	a)	EUR	2007	312	2012	Commodity Linked
ES Investment Plc	ESIP BCP FIN CRD LKD DEC2015	a)	EUR	2007	2,786	2015	f)
ES Investment Plc	ESIP JAN2012 BASKET LINKED	a)	EUR	2008	3,666	2012	l)
ES Investment Plc	ESIP JAN2012 EQUITY BASKET LINKED	a)	EUR	2008	923	2012	m)
ES Investment Plc	ESIP BARCLAYS LKD 6.30% MAR2016	a)	EUR	2008	4,499	2016	Fixed rate 6.30% + f)
ES Investment Plc	ESIP BARCLAYS LKD EUR3M MAR2016	a)	EUR	2008	1,108	2016	3 months Euribor + 2.20% + f)
ES Investment Plc	ESIP BARCLAYS LKD ZC MAR2016	a)	EUR	2008	1,876	2016	ZC + f)
ES Investment Plc	ESIP APR2013 AEGON SHARE LKD	a)	EUR	2008	1,373	2013	Indexed to AEGON
ES Investment Plc	ESIP JUN2013 CARBON NOTES	a)	EUR	2008	3,792	2013	n)
ES Investment Plc	ESIP AUG2012 EQL LINKED	a)	EUR	2008	3,189	2012	Indexed to BBVA
ES Investment Plc	ESIP DEC12 ENI LINKED	a)	EUR	2008	822	2012	Indexed to ENI
ES Investment Plc	ESIP DEC21 ENI LINKED 2	a)	EUR	2008	3,573	2021	Indexed to ENI
ES Investment Plc	ESIP MAY2012 EQL LINKED	a)	EUR	2008	3,263	2012	Indexed to BSCH
ES Investment Plc	ESIP MAY2021 BBVA LINKED	a)	EUR	2008	1,777	2021	Indexed to BBVA
ES Investment Plc	ESIP NOV2012 EQL LINKED	a)	EUR	2008	138	2012	Indexed to Santander and Deutsche Bank
ES Investment Plc	ESIP OCT2014 EQL LINKED 2	a)	EUR	2008	13	2014	Indexed to BBVA and Santander
ES Investment Plc	ESIP FIXED AMOUNT + AMORT NOV22	a)	EUR	2009	2,162	2022	Fixed Amounts
ES Investment Plc	ESIP LACAIXA EUR3M+2% MAR2011	a)	EUR	2009	2,016	2016	EURIBOR3M +2% + f)
ES Investment Plc	ESIP MAY2012 SX5E LINKED	a)	EUR	2009	1,227	2012	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP JUN2013 EQL LINKED	a)	EUR	2009	42	2013	o)
ES Investment Plc	ESIP JUL2014 INFLATION LINKED	a)	EUR	2009	1,568	2014	Indexed to inflation
ES Investment Plc	ESIP SEP2014 OCIDENTE II EQL	a)	EUR	2009	8,346	2014	p)
ES Investment Plc	ESIP AUG2012 BESI BRASIL LINKED	a)	EUR	2009	4,344	2012	q)
ES Investment Plc	ESIP CLN 5.45% OCT2014	a)	EUR	2009	6,708	2014	f)
ES Investment Plc	ESIP OCT2012 EQL LINKED	a)	EUR	2009	1,965	2012	Indexed to Brisa, EDP, Galp, BSCH and BCP
ES Investment Plc	ESIP 5.25% RANGE ACCRUAL OCT2016	a)	EUR	2009	4,606	2016	Range accrual
ES Investment Plc	ESIP OCT2014 EQL	a)	EUR	2009	964	2014	Indexed to Gazprom, Nokia and DU PONT
ES Investment Plc	ESIP CIMPOR CLN EUR3M DEC2014	a)	EUR	2009	3,782	2014	f)
ES Investment Plc	ESIP NOV2012 CLN BESIBRASIL	a)	EUR	2009	9,854	2012	f)
ES Investment Plc	ESIP FTD IBERIA 5.95% DEC2014	a)	EUR	2009	10,226	2014	f)
ES Investment Plc	ESIP FTD IBERIA II 5.5% DEC2014	a)	EUR	2009	3,341	2014	f)
ES Investment Plc	ESIP USD FTD IBERIA 5.5% DEC2014	a)	USD	2009	2,551	2014	f)
ES Investment Plc	ESIP DEC2012 USDBRL LINKED	a)	USD	2009	1,890	2012	Indexed to FH
ES Investment Plc	ESIP DEC2012 EWZ+HSCEI LINKED	a)	EUR	2009	2,690	2012	Indexed to EWZ e HSCEI
ES Investment Plc	ESIP BRAZIL EQL LINKED	a)	EUR	2009	3,530	2014	r)
ES Investment Plc	ESIP DEC2014 SX5E LINKED	a)	EUR	2009	3,220	2014	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP BRAZIL EQL JAN2015	a)	EUR	2010	1,421	2015	s)
ES Investment Plc	ESIP BSKT MERC EMERG EQL FEB2014	a)	EUR	2010	4,683	2014	t)
ES Investment Plc	ESIP WORST SOFT CMDT MAR2013	a)	EUR	2010	1,237	2013	u)
ES Investment Plc	ESIP USDEUR FX LKD MAY2015	a)	EUR	2010	358	2015	indexed to EUR/USD
ES Investment Plc	ESIP DJ US REAL EST LKD MAR2015	a)	EUR	2010	3,051	2015	indexed to Ishares DJ US Real State Index fund
ES Investment Plc	ESIP SOFT COMMODIT LKD APR2013	a)	EUR	2010	2,419	2013	v)
ES Investment Plc	ESIP FTD CRD LINKED JUN2015	a)	EUR	2010	4,065	2015	l)

(in thousands of euro)

		31.12.2011					
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
ES Investment Plc	ESIP CRDAGRI CL EUR6M+1.15 JUN15	a)	EUR	2010	2,840	2015	6 months Euribor ACT/360
ES Investment Plc	ESIP BRAZIL EQL MAY2016	a)	EUR	2010	2,776	2016	w)
ES Investment Plc	ESIP SX5E MAY14 EQL	a)	EUR	2010	1,407	2014	Indexed to Eurostoxx
ES Investment Plc	ESIP JUN2013 BASKET LINKED	a)	EUR	2010	3,037	2013	5.70% + x)
ES Investment Plc	ESIP EDP BCP PT LKD JUN2013	a)	EUR	2010	1,435	2013	y)
ES Investment Plc	ESIP BES RENDIM CRD LKD JUN2013	a)	EUR	2010	16,408	2013	z)
ES Investment Plc	ESIP TELECOM LKD JUL2013	a)	EUR	2010	8,785	2013	aa)
ES Investment Plc	ESIP BASKET LKD JUL2013	a)	EUR	2010	3,884	2013	ab)
ES Investment Plc	ESIP BASKET LKD JUL2014	a)	EUR	2010	1,869	2014	ab)
ES Investment Plc	ESIP AUG13 RANGE ACCRUAL	a)	EUR	2010	978	2013	Range accrual
ES Investment Plc	ESIP AUG2013 EURUSD FX LINKED	a)	EUR	2010	718	2013	Indexed to FH
ES Investment Plc	ESIP GOLD LKD FEB2012	a)	EUR	2010	441	2012	Indexed to Gold
ES Investment Plc	ESIP JAN2011 DOW JONES INDUS LKD	a)	EUR	2010	1,107	2013	Indexed to INDU
ES Investment Plc	ESIP SEP15 DIGITAL	a)	USD	2010	1,101	2015	Digital US Libor 3M
ES Investment Plc	ESIP ASIA INDEX LKD SEP2014	a)	EUR	2010	2,034	2014	ac)
ES Investment Plc	ESIP SEP2013 CURRENCIES LINKED	a)	EUR	2010	867	2013	ad)
ES Investment Plc	ESIP GOLD LKD OCT2013	a)	EUR	2010	2,453	2013	Indexed to Gold
ES Investment Plc	ESIP EDP PT CGD CRDLKD DEC2013	a)	EUR	2010	5,377	2013	ae)
ES Investment Plc	ESIP NOV2013 SAN BBVA EQL LINKED	a)	EUR	2010	1,569	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP EDP CRDLKD DEC2013	a)	EUR	2010	4,083	2013	6 month Euribor + 3.5% + Indexed to EDP
ES Investment Plc	ESIP SAN BBVA LINKED NOV2013	a)	EUR	2010	2,531	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP MAY12 EURPLN LINKED	a)	EUR	2010	695	2012	Indexed to FH
ES Investment Plc	ESIP NOV2013 SANTANDER LKD	a)	EUR	2010	826	2013	Indexed to BSCH
ES Investment Plc	ESIP DEC2013 SAN BBVA EQL LINKED	a)	EUR	2010	855	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP NOV2013 AMERLATIN BSKT LKD	a)	EUR	2010	1,572	2013	af)
ES Investment Plc	ESIP NOV2013 ASIA PACIF BSKT LKD	a)	EUR	2010	1,886	2013	ag)
ES Investment Plc	ESIP MAY2012 EWZ LINKED	a)	EUR	2010	1,722	2012	Indexed to EWZ
ES Investment Plc	ESIP DEC2015 CREDLINKED BSCH	a)	EUR	2011	1,408	2015	Indexed to BBVA, Credit Agricole and Fortis
ES Investment Plc	ESIP 2 ANOS EURUSD LKD FEB13	a)	EUR	2011	1,484	2013	FX EUR/USD Linked
ES Investment Plc	ESIP DUAL5%+AFRICA LKD FEB15	a)	EUR	2011	1,111	2015	ah)
ES Investment Plc	ESIP EXPOSIÇAO EURUSD LKD FEB14	a)	EUR	2011	1,448	2014	FX EUR/USD Linked
ES Investment Plc	ESIP FEB16 5A EXPOSIC AFRICA LKD	a)	EUR	2011	1,108	2016	ai)
ES Investment Plc	ESIP SX5E LKD FEB14	a)	EUR	2011	1,042	2014	Eurostoxx Linked
ES Investment Plc	ESIP CABAZ BRASIL LKD FEB14	a)	EUR	2011	1,778	2014	aj)
ES Investment Plc	ESIP STEP-UP FEB2012	a)	EUR	2011	4,806	2012	Fixed STEP-UP Rate
ES Investment Plc	ESIP CLN SANTANDER MAR2014	a)	EUR	2011	5,860	2014	6.35% + CLN BSCH SUB
ES Investment Plc	ESIP SX5E SPX LKD MAR2016	a)	EUR	2011	1,389	2016	Eurostoxx and S&P 500 Linked
ES Investment Plc	ESIP WORST DIG COMM EQL MAR2013	a)	EUR	2011	922	2013	ak)
ES Investment Plc	ESIP CLN EDP MAR2014	a)	EUR	2011	9,155	2014	7% + CLN EDP
ES Investment Plc	ESIP EDP MAR2014 CLN	a)	EUR	2011	13,529	2014	6.5% + CLN EDP
ES Investment Plc	ESIP MAR14 BES EURUSD LINKED	a)	EUR	2011	1,480	2014	FX USD/BRL Linked
ES Investment Plc	ESIP MAR14 EURCHF LINKED	a)	EUR	2011	2,356	2014	FX EUR/CHF Linked
ES Investment Plc	ESIP MAR2014 TEF FTE LINKED	a)	EUR	2011	770	2014	Telefonica and France Telecom Linked
ES Investment Plc	ESIP SEP2012 SANTANDER LINKED	a)	EUR	2011	363	2012	BCSH Linked
ES Investment Plc	ESIP APR2015 BES ENERGIA LINKED	a)	EUR	2011	10,599	2015	Espirito Santo Rockefeller Global Linked
ES Investment Plc	ESIP APR2015 BES ENERGIA LKD	a)	USD	2011	2,780	2015	Espirito Santo Rockefeller Global Linked
ES Investment Plc	ESIP EDP CLN JUN2014	a)	EUR	2011	12,378	2014	7% + CLN EDP
ES Investment Plc	ESIP STEP-UP APR2012	a)	EUR	2011	4,344	2012	Fixed STEP-UP Rate
ES Investment Plc	ESIP APR2012 TELEFONICA II LINKD	a)	EUR	2011	4,327	2012	Telefonica Linked
ES Investment Plc	ESIP APR2012 TELEFONICA LINKD	a)	EUR	2011	2,924	2012	Telefonica Linked
ES Investment Plc	ESIP APR2013 EURUSD LKD	a)	EUR	2011	3,285	2013	FX EUR/USD Linked
ES Investment Plc	ESIP APRIL2014 HEALTH CARE LKD	a)	EUR	2011	7,530	2014	Health Care Select Sector SPDR Fund Linked
ES Investment Plc	ESIP HEALTH CARE LKD APR2014	a)	EUR	2011	2,792	2014	al)
ES Investment Plc	ESIP SX5E SPX LKD APR2014	a)	EUR	2011	2,043	2014	Eurostoxx e S&P 500 Linked
ES Investment Plc	ESIP TEF PT LKD 26APR2014	a)	EUR	2011	527	2014	Telefonica and Portugal Telecom Linked
ES Investment Plc	ESIP TEF PT LKD APR2014	a)	EUR	2011	519	2014	Telefonica and Portugal Telecom Linked
ES Investment Plc	ESIP STEP-UP APR2013	a)	EUR	2011	1,221	2013	Fixed STEP-UP Rate
ES Investment Plc	ESIP EUR CLN JUN2014	a)	EUR	2011	8,384	2014	6.75% + CLN PT
ES Investment Plc	ESIP MAY2012 TEF LINKED	a)	EUR	2011	1,968	2012	Telefonica Linked
ES Investment Plc	ESIP BES MOMENTUM JUN2015	a)	EUR	2011	6,537	2015	Espirito Santo Momentum Fund Linked
ES Investment Plc	ESIP INOV TECNOLOGICA JUN2014	a)	EUR	2011	9,289	2014	am)
ES Investment Plc	ESIP BSCH CLN JUN2014	a)	EUR	2011	5,682	2014	6.1% + CLN BSCH
ES Investment Plc	ESIP PETROBRAS CLN JUN2014	a)	USD	2011	2,227	2014	3-Month USD libor + 3.70% + CLN PETROBRAS
ES Investment Plc	ESIP TEF PT JUN2014	a)	EUR	2011	1,019	2014	Telefonica and Portugal Telecom Linked
ES Investment Plc	ESIP BRAZIL NOTES LKD MAY2011	a)	EUR	2011	3,909	2016	11.50% + FX EUR/BRL Linked

(in thousands of euro)

31.12.2011							
Issuer	**Designation**		**Currency**	**Issue date**	**Book value**	**Maturity**	**Interest rate**
ES Investment Plc	ESIP JUN2012 ISHR BRAZIL LINKED	a)	EUR	2011	654	2012	iShares MSCI Brazil Index Fund Linked
ES Investment Plc	ESIP PT II CLN JUN2014	a)	EUR	2011	6,732	2014	7% + CLN PT
ES Investment Plc	ESIP BES 5ANOS EFIC ENERG JUNE16	a)	EUR	2011	4,337	2016	an)
ES Investment Plc	ESIP BES PROTECÇAO JUN2014	a)	EUR	2011	52,916	2014	ao)
ES Investment Plc	ESIP SANTANDER CLN JUN2014	a)	EUR	2011	2,669	2014	6.4% + CLN BSCH
ES Investment Plc	ESIP ASCENDI CLN JUL2013	a)	USD	2011	5,260	2013	7.25% + Ascendi CLN
ES Investment Plc	ESIP SX5E JUL15 EQL	a)	EUR	2011	1,509	2015	Eurostoxx Linked
ES Investment Plc	ESIP JAN2013 BES BRASIL 18M	a)	EUR	2011	7,571	2013	EWZ Linked
ES Investment Plc	ESIP 2Y BULLISH CAB VS USD JUL13	a)	EUR	2011	2,008	2013	Fx linked
ES Investment Plc	ESIP BES PROTECÇAO II JUN2014	a)	EUR	2011	24,900	2014	Inflation and Euribor 12M Liked
ES Investment Plc	ESIP EUR PRICING POWER 5Y JUL14	a)	EUR	2011	1,772	2016	ap)
ES Investment Plc	ESIP AUG2014 ALEMANHA EQL LINKED	a)	EUR	2011	549	2014	aq)
ES Investment Plc	ESIP AUG14 ES ROCKEFELLERGLO LKD	a)	EUR	2011	873	2014	Espirito Santo Rockfeller Global Linked
ES Investment Plc	ESIP ESFP CLN JUL2013	a)	USD	2011	5,827	2013	ESFP CLN
ES Investment Plc	ESIP BARCLAYS CLN SEP2014	a)	EUR	2011	2,809	2014	6% + Barclays CLN
ES Investment Plc	ESIP AUG14 INFLATION LKD	a)	EUR	2011	42,837	2014	Inflation Linked
ES Investment Plc	ESIP BANCO POPULAR CLN SEP2014	a)	EUR	2011	2,992	2014	8.75% + POPULAR CLN
ES Investment Plc	ESIP SEP14 TRY LKD	a)	EUR	2011	1,423	2014	Fx linked
ES Investment Plc	ESIP BRL FXL LINKED SEP2016	a)	EUR	2011	1,830	2016	Fx linked
ES Investment Plc	ESIP SEP2014 INFLATION+EURIBOR	a)	EUR	2011	28,676	2014	Inflation and Euribor 12M Liked
ES Investment Plc	ESIP BCO POPULAR CLN SEP2014	a)	EUR	2011	1,587	2014	8.75% + POPULAR CLN
ES Investment Plc	ESIP SEP2014 EUROSTOXX 50 EQL 5	a)	EUR	2011	1,530	2014	Eurostoxx Linked
ES Investment Plc	ESIP SEP2014 PSI20 EQL 4	a)	EUR	2011	2,118	2014	PSI20 Linked
ES Investment Plc	ESIP BCO POPULAR CRDLK SEP2014	a)	EUR	2011	7,187	2014	9.40% + Banco Popular CLN
ES Investment Plc	ESIP PT CLN DEC2014	a)	EUR	2011	14,523	2014	11% + PT CLN
ES Investment Plc	ESIP OCT2014 WORLD INVESTM EQL 3	a)	EUR	2011	1,585	2014	b)
ES Investment Plc	ESIP DEC2013 BES4%GLOBAL LINKED	a)	EUR	2011	27,786	2015	ar)
ES Investment Plc	ESIP NOV2011 SPANISH NOTES	a)	EUR	2011	151	2016	as)
ES Investment Plc	ESIP AUTOCALLABLE 2014	a)	EUR	2011	2,635	2014	at)
ES Investment Plc	ESIP EDP USD CLN DEC2014	a)	USD	2011	1,407	2014	8.5% + EDP CLN
ES Investment Plc	ESIP TELECOM ITALIA CLN DEC2014	a)	EUR	2011	4,949	2014	7.25% + Telecom Italia CLN
ES Investment Plc	ESIP PORTUGUESE REP CLN DEC2021	a)	EUR	2011	16,815	2021	6% + Republica Portuguesa CLN
ES Investment Plc	ESIP AUTOCALL HIGH DIVD DEC2014	a)	EUR	2011	2,035	2014	au)
ES Investment Plc	ESIP UTILIT FINANCIALS SHS DEC18	a)	EUR	2011	2,620	2018	av)
ES Investment Plc	ESIP UTILITIES SHS DEC2018	a)	EUR	2011	617	2018	aw)
ES Investment Plc	ESIP IBEX LINKED DEC2013	a)	EUR	2011	1,214	2013	IBEX Linked
ES Investment Plc	ESIP TELEFONICA CLN DEC2014	a)	EUR	2011	4,480	2014	7.15% + Telefonica CLN
ES Investment Plc	ESIP WORLD INVESTMENT II DEC2014	a)	EUR	2011	1,027	2014	b)
BESIL	BESIL STEP UP 09/02/13		EUR	2003	1,882	2013	Fixed rate - 6.44%
BESIL	BESIL STEP UP 10/07/13		EUR	2003	1,767	2013	Fixed rate - 6.44%
BESIL	BESIL STEP UP 07/21/14		USD	2004	20,051	2014	Fixed rate - 8.29%
ESPLC	BES0511_13E BESESPLC29/05/2012		EUR	2011	29,960	2012	Fixed rate 2.638%
ESPLC	BES0112_27E_BESESPLC14/01/2012		EUR	2011	503,974	2012	Fixed rate 3.621%
ESPLC	BES0212_28E BESESPLC06/02/2012		EUR	2011	250,727	2012	Fixed rate 1.976%
ESPLC	BES0212_29E BESESPLC13/02/2012		EUR	2011	300,751	2012	Fixed rate 1.959%
ESPLC	BES0312_31E BESESPLC14/03/2012		EUR	2011	150,128	2012	Fixed rate 1.923%
ESPLC	BES0312_32E BESESPLC12/03/2012		EUR	2011	300,256	2012	Fixed rate 1.923%
ESPLC	BES0312_33E BESESPLC20/03/2012		EUR	2011	26,020	2012	Fixed rate 2.25%
ESPLC	BES0112_35E BESESPLC30/01/2012		USD	2011	773,115	2012	Fixed rate 4%
Lusitano Mortgage nº 6	Class A Mortgage Backed Floating Rate Notes		EUR	2007	560,481	2060	Euribor + 0.20%
Lusitano Mortgage nº 6	Class B Mortgage Backed Floating Rate Notes		EUR	2007	6,505	2060	Euribor + 0.30%
Lusitano Mortgage nº 6	Class C Mortgage Backed Floating Rate Notes		EUR	2007	10,009	2060	Euribor + 0.45%
Lusitano SME nº 1	Class A asset backed floating rate notes		EUR	2006	268,232	2028	Euribor + 0.15%
Lusitano SME nº 1	Class B asset backed guaranteed floating rate notes		EUR	2006	35,993	2028	Euribor + 0.05%
Lusitano SME nº 1	Class C asset backed floating rate notes		EUR	2006	30,005	2028	Euribor + 2.20%
CLNs	SIGNUM 0 05/14/12		EUR	2001	22,711	2012	Fixed rate - 1.375%
CLNs	SIGNUM 0 05/21/12		EUR	2001	18,106	2012	Fixed rate - 1.319%
					18,452,648		

a) Liabilities at fair value through profit and loss or with embedded derivatives
b) Indexed to a basket composed by Dow Jones Eurostoxx 50, S&P 500 e Nikkei 225 index
c) Indexed from 1st to 4th year to fixed rate 6.00% ; indexed to swap rate after 4th year
d) Indexed to a basket composed by Eurostoxx50, SP500, Nasdaq100 and EWZ index
e) Indexed to a basket composed by TOPIX, HANG SENG, HSCEI, NIFTY, KOSPI2 e MSCI Singapore index
f) Indexed to credit risk
g) Indexed to previous coupon + spread - Euribor
h) Indexed to reverse floater
i) Indexed to a basket composed by BBVA and BSCH shares
j) Indexed to a basket composed by DJ Eurostoxx 50, SP500 and Topix index
k) Indexed to a basket composed by Brisa, EDP, Galp, BSCH and BCP shares
l) Indexed to credit risk (First to default) on Santander, PT INT FIN, EDP and Brisa shares
m) Indexed to a basket composed by BBVA, Repsol and Telefonica shares

n) Indexed to a basket composed by Petroleo Brasileiro, Banco Bradesco, Companhia Vale Rio Doce shares
o) Indexed to a basket composed by BBVA, REPSOL and ENEL shares
p) Indexed to a basket composed by Eurostoxx, SP500, Nasdaq100 e iShare MSCI Brazil Fund baskets
q) 1st year: Fixed rate, from 2nd year: 6 months Euribor + 150Bps, indexed to BESI Brazil
r) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Itau Unibanco and Banco Bradesco shares
s) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Vale SA, Itau Unibanco and Banco Bradesco shares
t) Indexed to a basket composed by Ericsson, Komatsu, Santander, Sanofi-Aventis and ABB LTD shares
u) Indexed to a basket of commodities composed by Corn, Wheat and Soybean
v) Indexed to a basket of commodities composed by Corn, Wheat and Sugar
w) Indexed to a basket composed by Petrobras, Gerdau, Vale, Itau Unibanco and Banco Bradesco shares
x) Indexed to Brisa, EDP, PT and Credit Agricole loans
y) Indexed to a basket composed by EDP, BCP and PT shares
z) Indexed to PT, EDP and Brisa loans
aa) Indexed to a basket composed by Telefonica, Deutsche Telecom and Vodafone shares
ab) Indexed to a basket composed by Louis Vuitton, Nokia, Bayer and EON shares
ac) Indexed to a basket composed by HSCEI, MSCI India, MSCI Taiwan and SP ASX200 index
ad) Indexed to a currency basket composed by EUR/AUD, EUR/CAD, EUR/NZD, EUR/INR
ae) Indexed toEDP, PT and CGD loans
af) Indexed to a basket composed by MSCI Brasil, Chile e Mexico index
ag) Indexed to a basket composed by HSCEI, MSCI India, KOSPI200 and SP ASX500 index
ah) 5% + indexed to a basket composed by index MSCI Daily TR Net Emerging Markets Egypt USD and FTSE/JSE Africa TOP40
ai) Indexed to a basket composed by index MSCI Daily TR Net Emerging Markets Egypt USD and FTSE/JSE Africa TOP40
aj) Indexed to a basket composed by Petróleo Brasileiro, Vale SA and Braskem shares
ak) Indexed to a basket of commodities composed by Copper, Oil, Sugar and Gold
al) Indexed to a basket composed by Gilead sciences, Celgene corp, Mylan Inc,Teva Pharmaceutical Ind Ltd and Amgen Inc shares
am) Indexed to a basket composed by Apple, Samsung, Amazon and Google shares
an) Indexed to a basket composed by Philips, Siemens, Iberdrola and Veolia shares
ao) 12 month Euribor + inflation linked
ap) Indexed to a basket composed by Oracle, SAP, Caterpillar, Komatsu, BHP Billiton, Mitsubishi shares
aq) Indexed to a basket composed by Daimler, DB, E.ON shares
ar) Indexed to Barclays Capital Anmove Eur 7% index
as) Indexed to a basket composed by Telefonica, Banco Santander, BBVA and Banco Popular shares
at) Indexed to a basket composed by Ambev, TAM, Brasil Foods, Itau Unibanco, Gerdau and Cia Energética de Minas Gerais shares
au) Indexed to a basket composed by Vodafone Group PLC, Sanofi, Novartis AG and MacDonald's Corp shares
av) Indexed to a basket composed by Telefonica, Banco Santander, Deutsche Bank and Deutsche Telecom shares
aw) Indexed to a basket composed by Cabaz de acções Telefonica, Iberdrola, ENI spa and Deutsche Telecom shares

NOTE 34 – Provisions

As at 31 December 2011 and 2010, the balance of provisions presents the following movements:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance as at 31 December 2010	**214,706**	**179,851**
Charge for the year	6,860	49,343
Charge off	(35,678)	(17,897)
Exchange differences and other	4,562	3,409
Balance as at 31 December 2011	**190,450**	**214,706**

Other provisions in the amount of euro 190 450 thousand, (31 December 2010: euro 214 706 thousand) are intended to cover certain contingencies related to the Group's activities, the more relevant being as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Group has provisions for an amount of approximately euro 61.4 million (31 December 2010: euro 62.0 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 22.5 million as at 31 December 2011 (31 December 2010: euro 26.5 million) were established to cover these losses;
- Contingencies for ongoing tax processes. To cover these contingencies, the Group maintains provisions of approximately euro 36.0 million (31 December 2010: euro 39.8 million);
- Contingencies for ongoing processes regarding commercial operations performed abroad in the amount of euro 11.8 million (31 December 2010: euro 37.4 million);
- The remaining balance of approximately euro 58.8 million (31 December 2010: euro 49.0 million), is maintained to cover potential losses within the normal activities of the Group, such as frauds, robbery and on-going judicial cases.

NOTE 35 – 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 period ended 31 December 2011 and for the year ended 31 December 2010 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), plus an additional tax of 2.5% added following Decree-law No. 12-A of 30 June, in the scope of the additional measures of "Programa de Estabilidade e Crescimento" (PEC).

The Portuguese Tax Authorities are entitled to review the annual tax return of the Group subsidiaries domiciled in Portugal 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 Group subsidiaries domiciled in Portugal are confident that there will be no material differences arising from tax assessments within the context of the financial statements.

Regarding current tax, the offshore branch located in Madeira Free Zone, in accordance with Article 33 of the Statute of Fiscal Benefits, had an exemption in corporate tax until 31 December 2011. For the purposes of this exemption, it is considered that at least 85% of taxable income of the entire business of the Bank results from activities performed outside the institutional framework of Madeira Free Zone.
Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted

or substantively enacted at the balance sheet date. To the extent that the change in rates provided by Law 64-B/2011 of 30 December 2011 (State Budget Law for 2012), applies only to the years ended 2012 and 2013 and it is estimated that in these years no reversal of temporary differences with significant net effect will occur, it was not taken into account in the calculation of the deferred taxes as at 31 December 2011.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2011 and 2010 can be analysed as follows:

(in thousands of euro)

	Assets		Liabilities		Net	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Financial instruments	111,815	61,328	(95,910)	(111,202)	15,905	(49,874)
Loans and advances to customers	333,721	252,580	-	-	333,721	252,580
Property and equipment	285	-	(9,068)	(9,239)	(8,783)	(9,239)
Intangible assets	102	102	-	-	102	102
Investments in subsidiaries and associates	-	-	(54,572)	(69,383)	(54,572)	(69,383)
Provisions	33,357	33,646	-	-	33,357	33,646
Pensions	290,150	284,304	(39,825)	(43,819)	250,325	240,485
Health care - SAMS	-	202	-	-	-	202
Long-term service benefits	8,185	8,152	-	-	8,185	8,152
Debt securities issued	204	-	-	(27,814)	204	(27,814)
Other	7,645	5,748	(2,052)	(7,177)	5,593	(1,429)
Tax losses brought forward	17,587	47,598	-	-	17,587	47,598
Deferred tax asset / (liability)	**803,051**	**693,660**	**(201,427)**	**(268,634)**	**601,624**	**425,026**
Assets / liabilities compensation for deferred taxes	(90,894)	(152,974)	90,894	152,974	-	-
Deferred tax asset / (liability), net	**712,157**	**540,686**	**(110,533)**	**(115,660)**	**601,624**	**425,026**

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.

The Group does not recognise deferred tax assets on tax losses brought forward by certain subsidiaries, because it is not expectable that they will be recovered in a foreseeable future.

A detail of the tax losses brought forward for which no deferred tax assets were recognised, is presented as follows:

(in thousands of euro)

Deadline to deduction	Tax losses brought forward	
	31.12.2011	31.12.2010
2010	-	9,598
2011	6,235	6,235
2012	1,155	1,155
2013	826	826
2014	58,216	5,329
	66,432	**23,143**

The changes in deferred taxes were recognised as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	**425,026**	**352,615**
Recognised in the income statement	133,666	15,899
Recognised in fair value reserve (1)	74,738	47,885
Recognised in equity - other comprehensive income	(15,551)	12,171
Recognised in other reserves	(29,189)	(1,535)
Exchange differences and other	12,934	(2,009)
Balance at the end of the year (Assets/ (Liabilities))	**601,624**	**425,026**

(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 5 512 thousands (costs) (31 December 2010: euro 16 902 thousands - profits)

The deferred tax recognised in equity – other comprehensive income includes actuarial deviations also recognised in this balance, as described in Note 13 – Employee Benefits.

The deferred tax recognised in the income statement and reserves, during 2011 and 2010 is analysed as follows:

(in thousands of euro)

	31.12.2011		31.12.2010	
	Recognised in (profit) /loss	Recognised in reserves	Recognised in (profit) /loss	Recognised in reserves
Financial Instruments	8,959	(74,738)	(25,732)	(47,885)
Loans and advances to customers	(81,141)	-	(39,863)	-
Property and equipment	(456)	-	(2,259)	-
Intangible assets	-	-	9	-
Investments in subsidiaries and associates	(17,523)	2,712	66,362	3,017
Provisions	289	-	(3,875)	-
Pensions	(22,680)	12,839	(1,852)	(15,188)
Health care - SAMS	202	-	30,080	-
Long-term service benefits	(33)	-	(885)	-
Debt securities issued	(28,018)	-	3,588	-
Other	4,830	1,083	809	1,535
Tax losses brought forward	1,905	28,106	(42,281)	-
Deferred taxes	**(133,666)**	**(29,998)**	**(15,899)**	**(58,521)**
Current taxes	72,147	4,497	59,673	46
Total	**(61,519)**	**(25,501)**	**43,774**	**(58,475)**

The current tax recognised in equity includes a cost of euro 4 570 thousand related to gains recognised in reserves, a gain of euro 326 thousand related to the cost incurred in the capital increase (31 December 2010: euro 1 933 thousand) and a cost of euro 254 thousand related to pensions (31 December 2010: euro 1 829 thousand); as at 31 December 2010 it also included an amount of euro 150 thousand related with the share based incentive scheme.

The reconciliation of the income tax rate can be analysed as follows:

(in thousands of euro)

	31.12.2011		31.12.2010	
	%	Amount	%	Amount
Profit before taxes		**(57,723)**		**700,765**
Banking levy		(30,489)		-
Profit before tax for the tax rate reconciliation		**(27,234)**		**700,765**
Statutory tax rate	29.0		29.0	
Income tax calculated based on the statutory tax rate		(7,898)		203,222
Tax-exempt dividends	...	(36,677)	(6.1)	(42,951)
Tax-exempt profits (off shore)	...	(82,728)	(8.2)	(57,503)
Tax-exempt gains	...	58,886	(11.5)	(80,543)
Non-taxable share of profit in associates	(6.9)	1,879	(1.5)	(10,781)
Non deductible costs	...	39,410	4.8	33,563
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
Utilization of tax losses brought forward for which no deferred tax assets had been constituted	...	(27,678)	-	-
Other	24.6	(6,713)	0.0	269
	...	**(61,519)**	**6.2**	**43,774**

Following the Law No. 55-A/2010 of 31 December, was established a Banking levy, which is not elegible as a tax cost. During the period ended 31 December 2011, the Group recongnised a cost of euro 30.5 thousand, which was included in Other operating income and expenses – Direct and indirect taxes (see Note 11).

NOTE 36 – Subordinated Debts

The balance subordinated debt is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Bonds	815,019	1,246,324
Loans	-	276,936
Perpetual Bonds	146,216	768,573
	961,235	2,291,833

The main features of the subordinated debt are presented as follows:

(in thousands of euro)

		31.12.2011					
Issuer	Designation	Currency	Issue Date	Amount Issued	Carrying Amount	Interest Rate	Maturity
BES Finance	Subordinated perpetual bonds	EUR	2002	30,843	32,148	6.63%	2012 [a)]
BES Finance	Subordinated perpetual bonds	EUR	2004	95,767	102,764	4.50%	2015 [a)]
BES Finance	Bonds	EUR	2008	20,000	20,089	3 months Euribor + 1%	2018
BESI	Bonds	BRL	2008	1,683	2,137	1.30%	2013
BESI	Bonds	BRL	2007	21,134	22,791	1.30%	2014
BESI	Bonds	BRL	2008	10,099	12,928	1.30%	2015
BESI	Bonds	EUR	2005	60,000	30,485	5.33%	2015
BESI	Bonds	EUR	2003	10,000	9,954	5.50%	2033
BES	Bonds	EUR	2004	25,000	25,145	6 months Euribor + 1.25%	2014
BES	Subordinated perpetual bonds	EUR	2005	15,000	11,304	3 months Euribor + 2.25%	2015 [a)]
BES	Bonds	EUR	2008	41,550	12,787	3 months Euribor + 1%	2018
BES	Bonds	EUR	2008	638,450	620,370	3 months Euribor + 3%	2019
BES	Bonds	EUR	2008	50,000	50,099	3 months Euribor + 1.05%	2018
BES	Bonds	EUR	2011	8,174	8,234	Fixed rate 10%	2021
				1,027,700	961,235		

a) Call option date

Changes in subordinated debt are analysed as follows:

(in thousands of euro)

	Balance as at 31 December 2010	Issues	Repayments	Net Repurchases	Other movements [(a)]	Balance as at 31 December 2011
Bonds	1,246,324	8,174	(385,397)	(37,352)	(16,730)	815,019
Loans	276,936	-	(289,045)	-	12,109	-
Perpetual Bonds [b)]	768,573	-	(599,112)	15,000	(38,245)	146,216
	2,291,833	8,174	(1,273,554)	(22,352)	(42,866)	961,235

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 2011 and in 2010, the Group has recognised a gain in the amount of euro 315.4 million and euro 3.2 million, respectively (see Notes 11 and 33).

NOTE 37 – Other Liabilities

As at 31 December 2011 and 2010, the balance other liabilities is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Creditors		
Public sector	172,523	127,583
Deposit accounts	112,543	133,125
Sundry creditors		
Creditors from transactions with securities	87,439	107,486
Suppliers	50,306	68,241
Creditors from factoring operations	2,770	4,304
Other sundry creditors	211,647	265,496
	637,228	706,235
Accrued expenses		
Long-term service benefits (see Note 13)	27,477	29,655
Other accrued expenses	165,924	171,463
	193,401	201,118
Deferred income	**36,829**	**23,033**
Other sundry liabilities		
Stock exchange transactions pending settlement	315,181	714,013
Foreign exchange transactions pending settlement	23,947	2,095
Other transactions pending settlement	114,437	288,229
	453,565	1,004,337
	1,321,023	1,934,723

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 38 – Share Capital, Share Premium, Treasury Stock and Preference Shares

Ordinary shares

As at 31 December 2011, the Bank's share capital in the amount of euro 4 030.2 million, was represented by 1 461 240 084 ordinary shares, which were subscribed and fully paid by the following entities:

	% Share capital	
	31.12.2011	31.12.2010
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	35.00%	40.00%
Credit Agricole, S.A.	8.63%	10.81%
Bradport, SGPS, S.A (1)	4.83%	6.05%
Silchester International Investors Limited	5.67%	5.41%
Espírito Santo Financial Group, S.A.	2.27%	2.47%
PT Prestações - Mandatária de Aquisições e Gestão de Bens, S.A (2)	2.09%	-
Portugal Telecom, SGPS, SA	-	2.62%
Other	41.51%	32.64%
	100.00%	100.00%

(1) Portuguese Law company wholly owned by Banco Bradesco (Brazil), to which are attributable the voting rights
(2) The entity's voting rights are attributable to Portugal Telecom, SGPS

In the year ended 31 December 2011, the Bank made a capital increase through an exchange offer (OPT) over securities issued by Banco Espírito Santo, Banco Espírito Santo de Investimento and BES Finance.

As a result of the exchange offer, which took place from 14 to 30 November, a total of 294,573,418 new ordinary BES shares at the price of Euro 1.80 per share and 81,736 subordinated bonds with €100 par value each were be issued:

Issuer	Nature	Nominal amount	Counterparty	
			Bonds issued by BES	Cash bonds issued
BES	Undated deeply subordinated notes with conditional interest	€ 238,400,000	128,527,730	70,400
		USD 2,727,000	992,857	1,918
BES INVESTIMENTO	Undated deeply subordinated notes with conditional interest	€ 46,269,000	25,180,367	9,418
BES FINANCE	Undated Subordinated Notes	€ 184,214,000	72,960,255	not applicable
	Non-cumulative guaranteed step-up preference shares series A	€ 197,446,000	66,912,209	not applicable
	TOTAL	**€ 668,308,530**	**294,573,418**	**81,736**

The impact of this transaction in the Group share capital is presented as follows:

(in thousands of euro)

Capital	530
Share premium	(4)
Preference shares	(197)
Other equity instruments	(240)
Other reserves and retained earnings	55
Profit for the year	38
Non-controlling interests	(46)
Total Equity	**136**

Preference shares

The Group issued 450 thousand non-voting preference shares, which were listed in the Luxembourg stock Exchange in July 2003. 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. During the year ended 31 December 2011, the Group acquired 388 thousand preference shares, issued by BES Finance, of which 197 thousand were acquired in scope of the exchange offer over securities referred to above. The Group recorded a capital gain, net of taxes in the amount of euro 105.6 million recognised in other reserves. As at 31 December 2011, there were 211 913 outstanding preference shares in the amount of euro 211 913 thousand.

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.

These shares rank lower than any BES liability, and pari passu relative to any preference shares that may come to be issued by the Bank.

Share Premiums

As at 31 December 2011, share premiums are represented by euro 1 081 663 thousand related to the premium paid by the shareholders following the share capital increases.

Other equity instruments

The Group issued during 2010, perpetual subordinated bonds with interest conditioned in the total amount of euro 320 million. These bonds have an interest conditioned non-cumulative, payable only if and when declared by the Board of Directors.

The main characteristics of these equity instruments are presented as follows:

(in thousands of euro)

Issuer	Issue Date	Currency	Book Value	Interest Rate	Coupon Date	Reimbursement Possibility [2]
BES	December 2010	EUR	26,366	8.50%	15th Mar and 14th Sep	From September 2015
BES	December 2010	USD	3,139	8.00%	15th Mar and 14th Sep	From September 2015
			29,505			
BESI [1]	October 2010	EUR	3,731	8.50%	20th April anf 20th Oct	From October 2015
			33,236			

(1) BESI issue is included in the balance non-controlling interest (see Note 39)
(2) The reimbursement of these securities may be performed in full, but not partially, at the option of the issuer, subject to prior approval of the Bank of Portugal

During the year ended 31 December 2011, the Group paid interest in the amount of euro 21 801 thousand, registered as a deduction in reserves. As a result of the exchange offer over securities previously mentioned, Other equity instruments issued by BES reduced by an amount of euro 240 448 thousand and Non-controlling interests issued by BESI reduced by an amount of euro 46 269 thousand.

These bonds are subordinated in respect of any liability of BES and BESI and pari passu in respect of any subordinated bonds with identical characteristics that may be issued by the Bank. Given their characteristics, these obligations are considered as equity instruments in accordance with the accounting policy described in Note 2.10.

Treasury stock

BES and its subsidiaries established a share based payment scheme (SIBA) which terminated in December 2010.

During the year ended 31 December 2011, the Group acquired treasury stock under PRVIF programme (see Note 13). The movement in treasury stocks is analysed as follows:

	31.12.2011		31.12.2010	
	Number of shares	Amount (thousand of euro)	Number of shares	Amount (thousand of euro)
Opening balance	-	-	1,276,261	25,083
Shares acquired [1]	342,475	997	-	-
Shares sold [2]	-	-	(1,276,261)	(2,952)
Net amount of transactions with SIBA shares [3]	-	-	-	(22,131)
Year-end balance	**342,475**	**997**	**-**	**-**

(1) Shares acquired under PRVIF, at a price of 2.909 euro per share
(2) 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
(3) Amount transfered to Other reserves in December 2010

NOTE 39 – Fair Value Reserve, Other Reserves and Retained Earnings and Non-Controlling Interest

Legal Reserve

The legal reserve can only be used to absorb accumulated losses or to increase the amount of the share capital. Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law no. 298/92, 31 December) requires that 10% of the profit for the year be transferred to the legal reserve until it is equal to the share capital.

Fair value reserve

The fair value reserve represents the amount of the unrealized gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

During the year ended 31 December 2011 and 2010, the changes in these balances were as follows:

(in thousands of euro)

	Fair value reserve			Other reserves and retained earnings					Total
	Available for-sale financial assets	Deferred tax reserves	Total fair value reserve	Actuarial deviations (net of taxes)	Exchange differences	Legal reserve	Other reserves and retained earnings	Total Other reserves and retained earnings	
Balance as at 31 December 2009 (Reported)	**365,323**	**(64,490)**	**300,833**	**-**	**(5,634)**	**22,000**	**655,697**	**672,063**	**972,896**
Accounting policy change	-	-	-	(592,922)	-	-	-	(592,922)	(592,922)
Balance as at 31 December 2009 (Restated)	**365,323**	**(64,490)**	**300,833**	**(592,922)**	**(5,634)**	**22,000**	**655,697**	**79,141**	**379,974**
Share-based incentive plan (SIBA)	-	-	-	-	-	-	366	366	366
Actuarial Deviations	-	-	-	(77,960)	-	-	-	(77,960)	(77,960)
Settlement of Share-based incentive plan (SIBA)	-	-	-	-	-	-	(22,131)	(22,131)	(22,131)
Dividends from preference shares	-	-	-	-	-	-	(33,480)	(33,480)	(33,480)
Changes in fair value	(376,614)	66,201	(310,413)	-	-	-	-	-	(310,413)
Other movements	-	-	-	-	-	-	(3,321)	(3,321)	(3,321)
Exchange differences	-	-	-	-	6,114	-	-	6,114	6,114
Transfer to reserves	-	-	-	-	-	37,000	321,936	358,936	358,936
Balance as at 31 December 2010 (Restated)	**(11,291)**	**1,711**	**(9,580)**	**(670,882)**	**480**	**59,000**	**919,067**	**307,665**	**298,085**
Acquisition of preference shares a)	-	-	-	-			105,648	105,648	105,648
Actuarial Deviations	-	-	-	29,567	-	-	-	29,567	29,567
Interest of other equity instruments	-	-	-	-	-	-	(15,478)	(15,478)	(15,478)
Dividends from preference shares	-	-	-	-	-	-	(25,717)	(25,717)	(25,717)
Changes in fair value	(504,536)	68,941	(435,595)	-	-	-	-	-	(435,595)
Exchange differences	-	-	-	-	(388)	-	-	(388)	(388)
Transfer to reserves	-	-	-	-	-	26,000	383,946	409,946	409,946
Purchase and sale of subsidiaries	-	-	-	-	-	-	3,630	3,630	3,630
Other comprehensive income from associates	-	-	-	-	-	-	(8,053)	(8,053)	(8,053)
Other variations	-	-	-	-	-	-	(1,175)	(1,175)	(1,175)
Balance as at 31 December 2011	**(515,827)**	**70,652**	**(445,175)**	**(641,315)**	**92**	**85,000**	**1,361,868**	**805,645**	**360,470**

(a) Net taxes

The fair value reserve is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Amortised cost of available-for-sale financial assets	12,037,835	11,859,592
Accumulated impairment losses recognised	(168,282)	(159,232)
Amortised cost of available-for-sale financial assets, net of impairment	11,869,553	11,700,360
Fair value of available-for-sale financial assets	11,482,866	11,774,881
Net unrealised gains recognised in the fair value reserve	(386,687)	74,521
Fair value reserves related to securities reclassified as held-to-maturity investments	(4,088)	(13,694)
Deferred taxes	57,737	(17,001)
Fair value reserve of associates appropriated on consolidation	(112,861)	(54,733)
Net fair value reserve	(445,899)	(10,907)
Minority interests	724	1,327
Fair value reserve attributable to equity holders of the Bank	**(445,175)**	**(9,580)**

The movement in the fair value reserve, net of deferred taxes, impairment losses and non-controlling interest is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	**(9,580)**	**300,833**
Changes in fair value	(631,097)	(41,980)
Disposals during the year	68,770	(364,436)
Impairment recognised during the year	57,791	29,802
Deferred taxes recognised in reserves during the year	68,941	66,201
Balance at the end of the year	**(445,175)**	**(9,580)**

Non-controlling Interests

Non-controlling interests by subsidiary are analysed as follows:

(in thousands of euro)

	31.12.2011		31.12.2010	
	Balance sheet	Income statement	Balance sheet	Income statement
BES ANGOLA	382,073	116,448	256,969	120,599
BESI [a)]	3,731	-	50,000	-
AMAN BANK	34,145	(2,978)	36,620	(835)
ES CONCESSÕES	34,840	1,314	35,094	17,827
FCR VENTURES II	21,239	(6,567)	23,903	(1,022)
BES Securities	13,191	1,252	22,681	3,096
BES Investimento do Brasil	31,922	4,538	19,414	355
ESAF	12,640	2,318	17,767	3,429
BES AÇORES	16,909	2,075	13,563	1,182
Espirito Santo Investment Holding [b)]	4,729	(7,347)	12,085	11
BEST	14,117	2,679	11,689	2,189
FCR VENTURES III	13,403	(2,582)	8,533	(1,063)
OUTROS	5,508	1,404	30,383	772
	588,447	**112,554**	**538,701**	**146,540**

a) Corresponds to the emission of other equity instruments (see Note 38)
b) Holding company of BESI Group that holds a 65.4% participation in Execution Holdings, Limited

The movements in non-controlling interests in the year ended 31 December 2011 and 2010 are analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Non-controlling interests at the beginning of the year	**538,701**	**281,378**
Changes in the scope of consolidation	(44,052)	45,285
Increase in share capital of subsidiaries	33,950	17,325
Other equity instruments issue.	(46,269)	50,000
Dividends paid	(4,170)	(6,461)
Changes in fair value reserve	46	(4,969)
Exchange differences and other	(2,313)	9,603
Profit for the year	112,554	146,540
Non-controlling interests at the end of the year	**588,447**	**538,701**

NOTE 40 – Off-Balance Sheet Items

As at 31 December 2011 and 2010, this balance can be analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Contingent liabilities		
Guarantees and stand by letters of credit	8,376,006	8,198,285
Assets pledged as collateral	12,874,708	8,320,999
Open documentary credits	2,941,114	3,239,192
Other	482,426	581,957
	24,674,254	20,340,433
Commitments		
Revocable commitments	5,843,661	6,883,602
Irrevocable commitments	4,216,289	5,349,361
	10,059,950	12,232,963

Guarantees and standby letters of credits are banking operations that do not imply any out-flow by the Group.

As at 31 December 2011, 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 156.1 million (31 December 2010: euro 155.3 million) and (ii) in the scope of a liquidity facility collateralised by securities in the amount of euro 11 123 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 19 388 thousand (31 December 2010: euro 24 241 thousand);

- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 65 075 thousand (31 December 2010: euro 63 173 thousand);

- Securities pledged as collateral to the European Investment Bank in the amount of euro 1 213 509 thousand (31 December 2010: euro 594 500 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.

Revocable and irrevocable commitments represent contractual agreements for credit concession with the Group clients (eg. unused credit lines) 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)

	31.12.2011	31.12.2010
Securities and other items held for safekeeping on behalf of customers	57,749,398	69,177,215
Assets for collection on behalf of clients	270,997	274,553
Securitised loans under management (servicing)	2,875,874	3,107,186
Other responsibilities related with banking services	7,619,322	9,757,863
	68,515,591	82,316,817

NOTE 41 – 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 2011 and 2010, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Securities investment funds	4,633,217	4,459,631
Real estate investment funds	1,202,987	1,374,539
Pension funds	2,154,923	2,655,602
Bancassurance	3,478,338	5,373,789
Portfolio management	877,812	1,785,790
Other	1,366,597	1,445,009
	13,713,874	**17,094,360**

The amounts recognised in these accounts are measured at fair value determined at the balance sheet date.

NOTE 42 – 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:

Grupo BES Associates companies

Companies

Fin Solutia - Consultoria e Gestão de Créditos, S.A.
Polish Hotel Company, S.P.
Polish Hotel Capital S.P.
Polish Hotel Management Company, S.P.
Espírito Santo Iberia I
Hlc - Centrais de Cogeração, S.A.
Coporgest
Synergy Industry and Technology, S.A.
Salgar Investments
SO PESO Restauração e Hotelaria, S.A.
2BCapital, S.A.
Apolo Films S.L.
Brb Internacional, S.A.
Prosport, S.A.
Banque Espirito Santo et de la Vénétie, S.A.
Yunit - Serviços, S.A.
E.S. Contact Center - Gestão de Call Centers, S.A.
Fundo de Capital de Risco Espírito Santo Ventures Inovação e Internacionalização
Fundo Bem Comum FCR
Esiam - Espirito Santo International Asset Management, Ltd.
Société 45 Avenue Georges Mandel, S.A.
BES, Companhia de Seguros , S.A.
BES-Vida, Companhia de Seguros, S.A.
Locarent - Companhia Portuguesa de Aluguer de Viaturas, S.A.
Esegur - Empresa de Segurança, S.A.
Ascendi Group, SGPS, S.A.
Empark Aparcamientos y Servicios S.A.
Concesionaria Autopista Perote-Xalapa, C.V.
Autovia De Los Vinedos, S.A.
MRN - Manutenção de Rodovias Nacionais, S.A.
Portvias - Portagem de Vias, S.A.
Scutvias - Autoestradas da Beira Interior , S.A.
SOUSACAMP, SGPS, S.A.
GLOBAL ACTIVE - GESTÃO P.S.SGPS, S.A.
OUTSYSTEMS, S.A.
Coreworks - Proj. Circuito Sist. Elect., S.A.
Multiwave Photonics, S.A.
BIO-GENESIS
YDreams - Informática, S.A.
Nutrigreen, S.A.
Advance Ciclone Systems, S.A.
Watson Brown HSM, Ltd.
Domática, Electrónica e Informática, S.A.
MMCI - Multimédia, S.A.
Mobile World - Comunicações, S.A.
Sopratutto Café , S.A.
Enkrott S.A.
Rodi Sinks & Ideas, S.A.
Palexpo - Imagem Empresarial, S.A.
Nova Figfort - Têxteis, Lda.
TLCI 2 - Soluções Integradas de Telecomunicações, S.A.
BANCO DELLE TRE VENEZIE SPA
NANIUM , S.A.
IDAR Leasing Algérie
Ascendi Pinhal Interior Estradas do Pinhal Interior, S.A.
Ascendi Douro Estradas do Douro Interior, S.A.
Unicre - Cartão Internacional de Crédito, S.A.
Moza Banco

ESFG's subsidiaries, associates and related entities

Companies

Bespar - Sociedade Gestora de Participações Sociais, S.A.
Banque Privée Espírito Santo
Banque Privée Espírito Santo Sucursal Portugal
ES Bank (Panama), S.A.
ES Bankers (Dubai) Limited
Espirito Santo Financial (Portugal), SGPS, S.A.
Espirito Santo Financial Group, S.A.
ESFG International, Ltd.
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo)
Espírito Santo International S.A.
MANDEL PARTNERS
Espírito Santo Saúde SGPS, S.A.
Clínica Parque dos Poetas, S.A.
Cliria - Hospital Privado de Aveiro, S.A.
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, S.A.
HCI - Health Care International, Inc.
HME Gestão Hospitalar
Hospital da Arrábida - Gaia, S.A.
Hospital da Luz - Centro Clínico da Amadora, S.A.
Hospital da Luz, S.A.
Hospor - Hospitais Portugueses, S.A.
Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A.
RML - Residência Medicalizada de Loures, SGPS, S.A.
Surgicare - Unidades de Saúde, S.A.
Vila Lusitano - Unidades de Saúde, S.A.
Key Space Investments L.L.C.
Marignan Courtage, S.A.
Marignan Gestion, S.A.
Omnium Lyonnais de Participations Industrielles, S.A.
Partran - Sociedade Gestora de Participações Sociais, S.A.
Société Antillaise de Gestion Financiére, S.A. - SAGEFI
Seguros Logo, S.A.
Société Lyonnaise de Marchands de Biens
T - Vida, Companhia de Seguros, S.A.
Companhia de Seguros Tranquilidade, S.A.
Group Credit Agricole
Pastor Vida, S.A. de Seguros y Resseguros
Esumédica - Prestação de Cuidados Médicos, S.A.
Europ Assistance - Companhia Portuguesa de Seguros de Assistência
Saxo Bank
The Atlantic Company (Portugal) - Turismo e Urbanização, S.A.
Advancecare - Gestão e Serviços de Saúde, S.A.
Agribahia, S.A.
Atr - Actividades Turisticas e Representações, Lda
Aveiro Incorporated
Beach Heath Investments, Ltd.
Companhia Agricola Botucatu, S.A.
Casas da Cidade - Residências Sénior, S.A.
Cerca da Aldeia - Sociedade Imobiliária, S.A.
Cimenta - Empreendimentos Imobiliários, S.A.
Cidadeplatina - Construção S.A.
Clarendon Properties, Inc.
Clube de Campo da Comporta - Actividades Desportivas e Lazer, Lda.
Club de Campo Villar Ollala, S.A.
Clup Vip - Marketing de Acontecimentos, S.A.
Clube Residencial da Boavista, S.A.
Companhia Brasileira de Agropecuária Cobrape
Coimbra Jardim Hotel - Sociedade de Gestão Hoteleira, S.A.
Construcciones Sarrión, S.L.
Ganadera Corina Campos y Haciendas, S.A.
E.S.B. Finance Ltd.
Eastelco - Consultoria e Comunicação, S.A.
E.S. Asset Administration, Ltd.
Espírito Santo Cachoeira Desenvolvimento Imobiliário, Lda.
ES Comercial Agrícola, Lda.
Espírito Santo Guarujá Desenvolvimento Imobiliário, Lda.
ES Holding Administração e Participações, S/A
Espírito Santo Hotéis, SGPS, S.A.
Espírito Santo Industrial (BVI), S.A.
Espírito Santo Indaiatuba Desenvolvimento Imobiliário, Lda.
Espirito Santo Industrial, S.A.
Espírito Santo Industrial (Portugal) - SGPS, S.A.
Espirito Santo Irmãos - Sociedade Gestora de Participações Sociais, S.A.
Espírito Santo Itatiba Desenvolvimento Imobiliário, Lda.
Espírito Santo Primavera Desenvolvimento Imobiliário, Lda.
ES Private Equity, Ltd.
Espirito Santo Property (Brasil) S.A.
Espírito Santo Services, S.A.
Espirito Santo Tourism, Ltd.
Espirito Santo Tourism (Europe), S.A.
Espírito Santo Venture, Ltd.
Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, S.A.
ES Viagens e Turismo, Lda.
Espírito Santo Viagens - Consultoria e Serviços, S.A.
Escae Consultoria, Administração e Empreendimento, Lda.
Escopar - Sociedade Gestora de Participações Sociais, S.A.
ESDI Administração e Participações, Lda.
Esger - Empresa de Serviços e Consultoria, S.A.
Espirito Santo International (BVI), S.A.
E.S. International Overseas, Ltd.
Esim - Espirito Santo Imobiliário, S.A.
E.S. - Espírito Santo, Mediação Imobiliária, S.A.
Espirito Santo Property S.A.
Espirito Santo Property Holding, S.A.
Espírito Santo Property España, S.L.
Espart Madeira SGPS, Unipessoal, Lda.
Espart - Espirito Santo Participações Financeiras, SGPS, S.A.
Espirito Santo Resources, Ltd.
Espirito Santo Resources (Portugal), S.A.
E.S. Resources Overseas, Ltd.
Espírito Santo Resources S.A.
Estoril, Inc.
Euroamerican Finance Corporation, Inc.
Euroamerican Finance S.A.
Euroatlantic, Inc.
Fafer - Empreendimentos Turisticos e de Construção, S.A.
Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.
GES Finance Limited
Gesfimo - Espirito Santo, Irmãos, Soc. Gestora de Fundos de Investimento Imobiliários, S.A.
Gestres - Gestão Estratégica Espirito Santo, S.A.
Goggles Marine, Ltd.
Sociedade Agricola Golondrina, S.A.
HDC - Serviços de Turismo e Imobiliário, S.A.
Herdade da Boina - Sociedade Agrícola, S.A.
Herdade da Comporta - Actividades Agro Silvícolas e Turísticas, S.A.
Hoteis Tivoli, S.A.
Hotelagos, S.A.
Hospital Residêncial do Mar, S.A.
I.A.C. UK, Limited
Inter-Atlântico, S.A.
Iber Foods - Produtos Alimentares e Biológicos, S.A.
Imopca, S.A.
Lote Dois - Empreendimentos Turisticos S.A.
Luzboa, S.A.
Luzboa Um, S.A.
Luzboa Dois, S.A.
Luzboa Três, S.A.
Luzboa Quatro, S.A.
BEMS, SGPS, S.A.
Margrimar - Mármores e Granitos, S.A.
Marinoteis - Sociedade de Promoção e Construção de Hoteis, S.A.
Marmetal - Mármores e Materiais de Construção, S.A.
Metal - Lobos Serralharia e Carpintaria, Lda.
Moldebetão - Sociedade de Betões, S.A.
Multiger - Sociedade de Gestão e Investimento Imobiliário, S.A.
Mundo Vip - Operadores Turísticos, S.A.
Net Viagens - Agência de Viagens e Turismo, S.A.
Novagest Assets Management, Ltd.
Opca Angola, S.A.
Opca Moçambique, Lda.
Opcatelecom - Infraestuturas de Comunicação, S.A.
OPWAY - Engenharia, S.A.
OPWAY Imobiliária, S.A.
OPWAY - SGPS, S.A.
Pavi do Brasil - Pré-Fabricação, Tecnologia e Serviços, Lda.
Pavicentro - Pré-Fabricação, S.A.
Pavilis - Pré-Fabricação, S.A.
Paviseu - Materiais Pré-Fabricados, S.A.
Pavitel, SARL
Personda - Sociedade de Perfurações e Sondagens, S.A.
Placon - Estudos e Projectos de Construção, Lda.
Pojuca, S.A.
Pontave - Construções, S.A.
Agência Receptivo Praia do Forte, Ltd.
Praia do Forte Operadora de Turismo, Lda.
Grupo Proyectos y Servicios Sarrion, S.A.
Quinray Technologies Corp.
Quinta da Areia - Sociedade Agrícola Quinta da Areia, S.A.
Sociedade Agricola Quinta D. Manuel I, S.A.
Recigreen - Reciclagem e Gestão Ambiental, S.A.
Recigroup - Industrias de Reciclagem, SGPS, S.A.
Recipav - Engenharia e Pavimentos, Unipessoal, Lda.
Recipneu - Empresa Nacional de Reciclagem de Pneus, Ltd.
Santa Mónica - Empreendimentos Turísticos, S.A.
Saramagos S/A Empreendimentos e Participações
Société Congolaise de Construction et Travaux Publiques, SARL
Series - Serviços Imobiliários Espirito Santo, S.A.
Sociedade Gestora do Hospital de Loures, S.A.
Sintra Empreendimentos Imobiliários, Lda.
Sisges, SA Desenvolvimento de Projectos de Energia
Soguest - Sociedade Imobiliária, S.A.
Solférias - Operadores Turísticos, Lda.
Sopol - Concessões, SGPS, S.A.
Sotal - Sociedade de Gestão Hoteleira, S.A.
Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, S.A.
Suliglor - Imobiliária do Sul, SA
TA DMC Brasil - Viagens e Turismo, SA
Agência de Viagens Tagus, S.A.
Construtora do Tamega Madeira, S.A.
Construtora do Tamega Madeira SGPS, S.A.
Terras de Bragança Participações, Lda.
Timeantube Comércio e Serviços de Confecções, Lda.
Tivoli Gare do Oriente - Sociedade de Gestão Hoteleira, S.A.
TOP A DMC Viajes, S.A.
Top Atlântico - Viagens e Turismo, S.A.
Top Atlântico DMC, S.A.
Transcontinental - Empreendimentos Hoteleiros, S.A.
Turifonte, Empreendimentos Hoteleiros, S.A.
Turistrader - Sociedade de Desenvolvimento Turístico, S.A.
Ushuaia - Gestão e Trading Internacional Limited
Sociedade Agricola Turistica e Imobiliária Várzea Lagoa, S.A.
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 2011 and 2010, the balances and transactions with related parties are presented as follows:

(in thousands of euro)

	31.12.2011					31.12.2010				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associates companies										
BES VIDA	1,355,845	293,741	-	25,805	1,875	924,511	429,055	-	48,770	1,094
BES VÉNÉTIE	865,066	139,834	11,794	2,665	125	889,175	120,264	832	8,967	345
ASCENDI GROUP SGPS	188,129	8,337	29,358	16,025	7	188,684	5,348	-	9,882	2,542
LOCARENT	142,280	312	-	4,708	10,354	139,970	712	-	3,303	10,177
AENOR DOURO	247,956	1,898	12,000	11,202	18	122,304	592	-	5,013	-
NANIUM	42,044	2,752	18,387	971	-	45,403	704	-	610	-
EMPARK	40,080	-	-	2,675	-	41,537	-	-	3,286	-
SOUSACAMP	64	5	3,013	131	-	15,064	7	3,013	835	-
ASCENDI PINHAL INTERIOR	33,732	10,686	15,374	1,505	103	9,320	17,769	-	256	19
SCUTVIAS	8,840	-	6,868	2,967	-	9,140	-	-	227	-
PALEXPO	6,800	75	-	495	-	6,800	189	-	353	1
BES SEGUROS	23	12,578	-	119	11	3,840	13,773	-	1,413	4
ESEGUR	2,620	219	2,197	922	142	2,657	138	2,261	842	126
ESUMÉDICA (a)	-	-	-	-	-	2,569	-	4	83	55
ES CONTACT CENTER	2,196	-	43	114	961	1,614	-	92	60	915
EUROP ASSISTANCE (b)	-	-	-	-	-	1,064	1,670	7	43	12
FIDUPRIVATE	-	-	-	-	-	139	7	-	-	-
UNICRE	1	10,008	-	-	280	12	16,695	-	-	1
OTHERS	39,995	20,412	4,684	4,092	2,953	16,139	11,810	-	813	1,456
	2,975,671	**500,857**	**103,718**	**74,396**	**16,829**	**2,419,942**	**618,733**	**6,209**	**84,756**	**16,747**

(a) Entity related to ESFG since April/11
(b) Entity related to ESFG Since September/11

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 2011 and 2010, it was identified and recognized a responsibility to BES VIDA in the amount of euro 6.8 million.

As at 31 December 2011 and 2010, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euro)

	31.12.2011								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
ES FINANCIAL GROUP	-	-	4,715	695	5,410	-	696	3,367	-
ESF PORTUGAL	-	-	78,810	-	78,810	-	451	1,385	-
BESPAR	-	-	-	-	-	-	729	-	-
GRUPO CRÉDIT AGRICOLE	1,046	5	-	57	1,108	1,150	460	23	-
PARTRAN	-	-	-	-	-	-	14	-	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	173,644	-	-	173,644	-	154	-	-
COMPANHIA SEGUROS TRANQUILIDADE	-	167,298	3	426	167,727	21,155	102,166	1,173	1,306
ES IRMÃOS	-	99,341	-	-	99,341	-	1	5,242	-
BANQUE PRIVÉE ESPÍRITO SANTO	40,550	-	-	19	40,569	7,874	27,059	523	364
ES BANK PANAMA	384,087	-	-	-	384,087	-	719	9,045	25
ES SAUDE	-	22,479	31,253	35	53,767	24,870	23,873	746	25
OPWAY	-	14,133	-	1,279	15,412	47,642	13,073	287	-
T - VIDA	-	85,983	275,778	183	361,944	-	96,250	200	28
CONSTRUCCIONES SARRION	-	25,800	-	-	25,800	10,765	-	-	-
ESPÍRITO SANTO RESOURCES	-	1	-	23	24	-	901	56	224
ESUMÉDICA (a)	-	1,949	-	3	1,952	4	-	114	52
EUROP ASSISTANCE (b)	-	15	-	18	33	8	1,835	44	-
OTHERS	26,558	47,330	3,737	1,061	78,686	22,293	30,390	6,671	602
TOTAL	**452,241**	**637,978**	**394,296**	**3,799**	**1,488,314**	**135,761**	**298,771**	**28,876**	**2,626**

(a) Entity related to ESFG since April/11
(b) Entity related to ESFG Since September/11

(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	207	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	-	-	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
OTHERS	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**	**105,313**	**331,444**	**27,600**	**2,497**

As at 31 December 2011, loans granted by BES Group to its key management personnel (being key management personnel, the BES Board of Directors and Audit Committee, the subsidiary companies Board Members and BES senior management) amounted to euro 28 183 thousand (31 December 2010: euro 27 386 thousand).

As at 31 December 2011, 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 4 911 thousand (31 December 2010: euro 5 924 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. 1, 2, 3 and 4 of article 397 of the Código das Sociedades Comerciais.

However, credit granted by the Group to members of the Board of Directors of credit institutions are under the scope of article 85 of the Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF) being these operations subject to reporting to the Bank of Portugal, under the terms of Instruction nr. 17/2011, of August 2011.

- 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 2011 and 2010, 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 2011 the Group sold 18 520 and 4 830 units of the Fungepi Fund and Fungere Fund to the Group pensions funds, by a global amount of euro 80.0 million, not incurring in any material loss or gain.

NOTE 43 – Securitisation Transactions

As at 31 December 2011, 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	395,551	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	394,088	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	561,572	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	639,469	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1,400,000	885,194	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862,607	388,870	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1,100,000	798,263	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1,079,100	145,462 (1)	Project Finance loans
Lusitano Mortgages No.7 plc	September 2008	1,900,000	1,878,634	Mortgage loans (general regime)
Lusitano Leverage finance No. 1 BV	February 2010	516,534 (2)	249,208	Leverage Finance Loans
Lusitano SME N.º 2	December 2010	1,951,908 (3)	1,662,696	Loans to small and medium entities
Lusitano Finance N.º 3	November 2011	657,981	631,766	Loans to households
IM BES Empresas 1	November 2011	485,000	471,575	Loans to small and medium entities

(1) In March 2011, credit portfolio associated to this securitization was partially sold, with the remaining (domestic credit) been transferred to "Lusitano Project Finance No.1 FTC"
(2) This securitisation includes the amount of euro 382,062 thousands of mortgage loans from BES and an amount of euro 134,472 thousand of mortgage loans from BESI and ES Vénétie
(3) This securitisation includes an amount of euro 1,348,825 thousands of companies loans and an amount of euro 603,083 thousand of commercial paper 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 restated in the balance sheet.

The assets sold in the securitisation transactions Lusitano Mortgages No.3, Lusitano Mortgages No.4 and Lusitano Mortgages No.5, performed after 1 January 2004, were derecognised considering that the Group has transferred substantially all the risks and rewards of ownership.

In accordance with SIC 12, the Group fully consolidates Lusitano SME No. 1, plc, Lusitano Mortgages No.6 plc, Lusitano Project Finance No. 1 FTC and Lusitano Mortgages No.7 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.

In 2011 there were two securitization transactions: loans to households (Lusitano Finance Nº3) with credits from the BES and other of corporate loans (IM BES Empresas 1) with credits from BES Spanish branch. During 2010 it was set-up two securitization operations of company loans (Lusitano Leverage Finance Nº1) which includes loans from BES London Branch, BESI and ES Vénétie and other of company loans and commercial paper (Lusitano SME Nº2). These loans were not derecognised considering that the group has not transferred substantially all the risks and rewards of ownership.

The main characteristics of these transactions, as at 31 December 2011, 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	297,230	97	December 2035	AAA	Aaa	AAA	-	A	A3	A+	-
	Class B	32,500	32,500	-	December 2035	AA	Aa3	AA	-	A	A3	A+	-
	Class C	25,000	25,000	3,000	December 2035	A	A2	A	-	A	Baa3	A	-
	Class D	22,500	22,500	-	December 2035	BBB	Baa2	BBB	-	BBB+	Ba3	BBB	-
	Class E	5,000	5,000	-	December 2035	BB	Ba1	BB	-	BB+	B2	B	-
	Class F	10,000	10,000	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920,000	312,363	4,787	December 2036	AAA	Aaa	AAA	-	A	A3	A+	-
	Class B	30,000	30,000	10,000	December 2046	AA	Aa3	AA	-	A	Baa2	A	-
	Class C	28,000	28,000	5,000	December 2046	A	A3	A	-	A	Ba2	BBB-	-
	Class D	16,000	16,000	-	December 2046	BBB	Baa3	BBB	-	BBB+	B1	BB-	-
	Class E	6,000	6,000	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B	-
	Class F	9,000	9,000	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1,140,000	503,576	4,152	December 2047	AAA	Aaa	AAA	-	A	Baa2	AA-	-
	Class B	27,000	18,890	-	December 2047	AA	Aa2	AA	-	A	Ba3	A+	-
	Class C	18,600	13,013	-	December 2047	A	A2	A	-	A	B2	BBB+	-
	Class D	14,400	10,075	-	December 2047	BBB	Baa2	BBB	-	BB	Caa1	BB	-
	Class E	10,800	9,820	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	560,490	8,155	December 2048	AAA	Aaa	AAA	-	BBB-	Baa2	AA-	-
	Class B	22,800	21,553	-	December 2048	AA	Aa2	AA	-	BBB-	Ba3	A-	-
	Class C	19,200	18,150	-	December 2048	A+	A1	A+	-	BBB-	B2	BBB-	-
	Class D	24,000	22,687	-	December 2048	BBB+	Baa1	BBB+	-	B	Caa3	BB-	-
	Class E	10,200	10,200	-	December 2048	-	-	-	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1,323,000	806,238	3,351	December 2059	AAA	Aaa	AAA	-	BBB-	Baa3	AA-	-
	Class B	26,600	25,494	-	December 2059	AA	Aa2	AA	-	BBB-	B1	AA-	-
	Class C	22,400	21,469	-	December 2059	A	A1	A	-	BBB-	B3	A-	-
	Class D	28,000	26,836	5,271	December 2059	BBB+	Baa2	BBB	-	B	Ca	BB	-
	Class E	11,900	11,900	-	December 2059	-	-	-	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759,525	277,735	9,993	December 2028	AAA	-	AAA	-	BBB	-	A+	-
	Class B	40,974	35,931	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34,073	29,880	-	December 2028	BB	-	BB	-	CCC	-	BB-	-
	Class D	28,035	24,585	24,585	December 2028	-	-	-	-	-	-	-	-
	Class E	8,626	8,626	8,626	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943,250	613,148	53,075	March 2060	AAA	Aaa	AAA	-	A	A3	AA-	-
	Class B	65,450	65,450	58,950	March 2060	AA	Aa3	AA	-	A	Baa3	A+	-
	Class C	41,800	41,800	31,800	March 2060	A	A3	A	-	A	B1	A-	-
	Class D	17,600	17,600	17,600	March 2060	BBB	Baa3	BBB	-	BB	B3	BBB-	-
	Class E	31,900	31,900	31,900	March 2060	BB	-	BB	-	CCC	-	B	-
	Class F	22,000	22,000	22,000	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198,101	188,988	188,988	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1,425,000	1,403,967	1,403,967	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294,500	294,500	294,500	October 2064	-	-	BBB-	-	-	-	BB	-
	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	112,656	92,357	January 2020	-	-	AAA	-	-	-	AAA	-
	Class C	206,800	206,800	169,349	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	-	A3	-	AA
	Class B	369,100	369,100	369,100	August 2033	-	A2	-	A (low)	-	Baa1	-	BBB
	Class C	466,300	466,300	466,300	August 2033	-	-	-	-	-	-	-	-
	Class D	38,900	38,900	38,900	August 2033	-	-	-	-	-	-	-	-
Lusitano Finance N.º 3	Class A	450,700	450,700	450,700	November 2029	-	-	-	-	-	-	-	-
	Class B	207,200	207,200	207,200	November 2029	-	-	-	-	-	-	-	-
	Class C	20,000	20,000	20,000	November 2029	-	-	-	-	-	-	-	-
IM BES Empresas 1	Class A	242,500	242,500	242,500	November2043	-	AAA	-	-	-	AAA	-	-
	Class B	242,500	242,500	242,500	November2043	-	Caa2	-	-	-	Caa2	-	-

NOTE 44 – 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			Book Value	Fair Value
		Quoted Market Prices	Valuation models based on observable market information	Valuation models based on non-observable market information		
Balance as at 31 December 2011						
Cash and deposits at central banks	1,090,439	-	-	-	1,090,439	1,090,439
Deposits with banks	580,813	-	-	-	580,813	580,813
Other financial assets held for trading	-	1,003,079	2,431,560	-	3,434,639	3,434,639
Financial assets at fair value through profit or loss	-	29,604	1,924,698	9,687	1,963,989	1,963,989
Available-for-sale financial assets	14,260 a)	4,404,395	6,810,704	253,507	11,482,866	11,482,866
Loans and advances to banks	3,282,576	-	-	-	3,282,576	3,282,576
Loans and advances to customers	48,454,185	-	589,197	-	49,043,382	45,864,208
Held-to-maturity investments	1,541,182	-	-	-	1,541,182	1,359,782
Derivatives for risk management purposes	-	-	510,090	-	510,090	510,090
Financial assets	**54,963,455**	**5,437,078**	**12,266,249**	**263,194**	**72,929,976**	**69,569,402**
Deposits from central banks	10,013,713	-	-	-	10,013,713	10,013,713
Financial liabilities held for trading	-	-	2,125,253	-	2,125,253	2,125,253
Deposits from banks	5,481,596	-	757,764	-	6,239,360	5,373,851
Due to customers	26,904,037	-	7,302,125	-	34,206,162	34,206,162
Debt securities issued	14,393,295	-	4,059,353	-	18,452,648	15,788,713
Derivatives for risk management purposes	-	-	238,633	-	238,633	238,633
Subordinated debt	961,235	-	-	-	961,235	843,750
Financial liabilities	**57,753,876**	**-**	**14,483,128**	**-**	**72,237,004**	**68,590,075**
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 a)	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 (assets)	-	-	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 (liabilities)	-	-	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**

a) Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by non-quoted entities in relation to which no recent transactions were identified or is not possible to estimate reliably its fair value

BES Group determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.

Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, the Group uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

During 2011 and 2010, there were no transfer between the different sources/ valuation models used by the Group for the valuation of assets and liabilities.

The movements of the financial assets valued based on non-observable market information, during 2011, can be analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beggining of the year	**213,434**	**155,662**
Acquisitions	98,499	110,683
Disposals	(9,171)	(49,123)
Transfers	10,956	-
Changes in value	(50,524)	(3,788)
Balance at the end of the year	**263,194**	**213,434**

The main assumptions and inputs used during the years ended 2011 and 2010 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:

(%)

	31.12.2011			31.12.2010		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	0.3250	0.1100	0.4300	0.4500	0.3000	0.5800
1 month	1.0240	0.2953	0.7604	0.7820	0.2606	0.6800
3 months	1.3560	0.5810	1.0900	1.0060	0.3028	0.8200
6 months	1.6170	0.8085	1.3400	1.2270	0.4559	1.2600
9 months	1.7910	0.9659	1.5900	1.3720	0.6200	1.4150
1 year	1.4175	0.6770	1.0850	1.3320	0.4590	0.8910
3 years	1.3750	0.8225	1.3601	1.9450	1.3030	1.9480
5 years	1.7240	1.2260	1.5624	2.4810	2.1980	2.6180
7 years	2.0690	1.6335	1.8619	2.8930	2.8390	3.1868
10 years	2.3870	2.0160	2.2940	3.3050	3.4010	3.5350
15 years	2.6750	2.3715	2.6525	3.6380	3.8580	3.8780
20 years	2.6920	2.4960	2.8322	3.6970	4.0030	3.9530
25 years	2.6250	2.5460	2.9426	3.6660	4.0760	3.9530
30 years	2.5610	2.5870	2.9920	3.4960	4.1240	3.9230

Credit spreads

The credit spreads used by the Group on the valuation of the credit derivatives are disclosed on a daily basis by Markit representing observations constituted for around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spreads behavior in the market throughout the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
Year 2011						
CDX USD Main	17	60.25	93.98	120.03	128.87	137.62
iTraxx Eur Main	16	-	153.99	173.38	177.50	179.25
iTraxx Eur Senior Financial	16	-	-	275.25	-	275.25
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

Interest rate volatility

The values presented below, refer to the implied volatilities (at the money) used for the valuation of the interest rate options:

(%)

	31.12.2011			31.12.2010		
	EUR	USD	GBP	EUR	USD	GBP
1 year	51.08	76.51	53.15	42.00	104.76	56.90
3 years	52.92	77.70	67.00	42.80	67.49	52.00
5 years	50.31	67.85	62.90	36.20	47.52	39.60
7 years	44.19	56.34	52.30	31.30	37.90	32.00
10 years	38.00	47.78	39.70	26.80	31.35	25.50
15 years	32.42	42.36	29.70	23.19	27.04	20.50

Exchange rate and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange Rates	31.12.2011	31.12.2010	1 month	3 months	6 months	9 months	12 months
EUR/USD	1.2939	1.3362	13.23	14.68	15.15	15.25	15.35
EUR/GBP	0.8353	0.8608	8.28	9.55	10.48	10.85	11.23
EUR/CHF	1.2156	1.2504	9.75	9.20	8.85	8.85	8.58
EUR/NOK	7.7540	7.8000	7.10	8.05	8.60	8.81	9.03
EUR/PLN	4.4580	3.9750	10.95	12.30	13.10	13.43	13.60
EUR/RUB	41.7650	40.8200	11.75	12.60	13.50	14.05	14.50
USD/BRL [a]	1.8671	1.6597	17.15	18.45	18.90	19.23	19.55
USD/TRY [b]	1.8882	1.5487	14.20	15.75	16.50	16.85	17.00

(a) Calculation based in EUR/USD and EUR/BRL exchange rates
(b) Calculation based in EUR/USD and EUR/TRY exchange rates

Concerning the exchange rates, the Group uses in the valuation models the spot rate observed in the market at the time of the valuation.

Equity index

In the table below, we present the evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives:

	Quote			Historical volatility		Implied volatility
	31.12.2011	31.12.2010	% change	1 month	3 months	
DJ Euro Stoxx 50	2.317	2.793	(17.1)	32.14	38.50	29.23
PSI 20	5.494	7.588	(27.6)	23.53	27.79	-
IBEX 35	8.566	9.859	(13.1)	30.60	35.06	-
FTSE 100	5.572	5.900	(5.6)	20.99	26.58	19.26
DAX	5.898	6.914	(14.7)	31.54	38.80	27.85
S&P 500	1.258	1.258	(0.0)	24.04	27.70	20.27
BOVESPA	56.754	69.305	(18.1)	23.60	28.47	24.57

The methods and assumptions used in estimating the fair values of financial assets and liabilities measured at amortised cost in the balance sheet are analysed as follows:

Cash and deposits at central banks, Deposits with banks and Loans and advances to banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The expected future cash flows of loans with similar credit risk characteristics are estimated collectively. The discount rates used by the Group are current interest rates used in loans with similar characteristics.

Held-to-maturity investments

The fair values of these financial instruments are based on quoted market prices, when available. For unlisted securities the fair value is estimated by discounting the expected future cash-flows.

Deposits from central banks and Deposits from banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Due to customers

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The discount rates used by the Group are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on market prices, when available. When not available, the Group estimates its fair value by discounting the expected future cash-flows.

NOTE 45 – Risk Management

A qualitative outlook of the risk management at the Group is presented below:

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)

	31.12.2011	31.12.2010
Deposits with banks	4,675,649	5,427,710
Financial assets held for trading	3,392,644	3,760,285
Other financial assets at fair value through profit or loss	127,731	259,002
Available-for-sale financial assets	10,192,450	8,746,855
Loans and advances to customers	49,043,382	50,829,123
Held-to-maturity investments	1,541,182	2,458,800
Derivatives for risk management purposes	510,090	447,304
Other assets	682,779	660,872
Guarantees granted	8,376,006	8,198,285
Stand by letters of credit	2,941,114	3,239,192
Irrevocable commitments	4,216,289	5,349,361
Credit risk associated to the credit derivatives reference entities	165,573	404,756
	85,864,889	**89,781,545**

The analysis of the risk exposure by sector of activity, as at 31 December 2011 and 2010, can be analysed as follows:

(in thousands of euro)

	31.12.2011									
	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	435,935	(17,077)	11,803	-	-	11,315	(3,087)	-	-	45,525
Mining	215,006	(9,788)	3,869	-	-	1,027	(546)	-	-	19,408
Food, beverage and tobacco	909,823	(44,215)	11,537	-	-	22,286	(52)	-	-	93,689
Textiles	315,807	(28,171)	1,906	-	-	20,103	(2,238)	-	-	15,482
Shoes	71,989	(5,842)	459	-	-	515	(499)	-	-	2,040
Wood and cork	159,555	(24,975)	812	-	-	1,372	-	-	-	6,879
Printing and publishing	340,289	(6,638)	5,272	-	-	123,364	(1,989)	-	-	89,423
Refining and oil	29,233	(191)	3,204	-	-	4,154	-	-	-	6,997
Chemicals and rubber	631,525	(11,442)	11,156	-	-	56,770	(13,389)	-	-	95,474
Non-metallic minerals	435,583	(18,446)	475	-	-	37,764	(7,548)	-	-	26,912
Metallic products	845,522	(35,765)	1,324	-	-	500	-	-	-	122,800
Production of machinery, equipment and electric devices	278,209	(7,037)	2,381	-	-	62,612	(7,113)	-	-	162,205
Production of transport material	332,333	(14,200)	504	-	-	585	(108)	-	-	29,431
Other transforming industries	379,173	(23,987)	2,350	-	-	35,792	(8,413)	-	-	44,328
Electricity, gas and water	1,607,225	(9,554)	92,584	-	-	526,959	(1,855)	-	-	626,046
Construction	4,694,390	(236,134)	344,306	56,000	-	153,446	(1,687)	-	-	2,566,951
Wholesale and retail	3,260,235	(257,343)	19,263	-	-	315,889	(15,203)	-	-	537,255
Tourism	1,571,254	(60,542)	17,522	-	-	2,874	(379)	-	-	96,906
Transports and communications	1,895,253	(85,982)	305,527	-	-	537,632	(8,915)	9,865	-	985,644
Financial activities	2,849,493	(141,628)	1,052,404	1,695,543	510,090	1,938,549	(25,239)	618,975	(21,393)	164,929
Real estate activities	6,864,981	(304,001)	65,606	70,000	-	285,634	(1,776)	-	-	465,535
Services provided to companies	4,449,412	(217,566)	213,640	104,436	-	2,014,190	(29,923)	-	-	1,689,810
Public services	1,062,578	(22,593)	889,770	-	-	4,689,214	-	805,437	-	244,897
Non-profit organisations	3,016,419	(264,537)	368,585	38,010	-	790,406	(35,392)	139,221	(10,923)	144,089
Mortgage loans	11,610,112	(160,473)	-	-	-	-	-	-	-	39
Consumers loans	2,715,482	(155,292)	-	-	-	-	-	-	-	91,311
Other	239,010	(4,025)	8,380	-	-	18 196	(2,931)	-	-	2,001
Total	**51,215,826**	**(2,167,444)**	**3,434,639**	**1,963,989**	**510,090**	**11,651,148**	**(168,282)**	**1,573,498**	**(32,316)**	**8,376,006**

(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, equipment and 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
Consumers 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**

As at 31 December 2011 and 2010, the analysis of the loan portfolio by rating is as follows:

(in million of euro)

Rating/Scoring models	Internal scale	31.12.2011		31.12.2010	
		Credit amount	(%)	Credit amount	(%)
Large companies	[aaa;a-]	77	0.15%	549	1.04%
	[bbb+;-bbb-]	2,535	4.95%	3,019	5.74%
	[bb+;bb-]	4,697	9.17%	5,766	10.97%
	[b+;b-]	8,601	16.80%	9,077	17.26%
	ccc+	1,806	3.53%	1,472	2.80%
Medium enterprises	8-9	692	1.35%	361	0.69%
	10-11	656	1.28%	491	0.93%
	12-13	859	1.68%	745	1.42%
	14-15	576	1.12%	710	1.35%
	16-17	596	1.16%	944	1.79%
	18-19	575	1.12%	527	1.00%
	20-21	457	0.89%	706	1.34%
	22-23	345	0.67%	378	0.72%
	24-25	1,016	1.98%	1,036	1.97%
Small enterprises	A	91	0.18%	91	0.17%
	B	365	0.71%	446	0.85%
	C	878	1.71%	1,021	1.94%
	D	382	0.75%	578	1.10%
	E	216	0.42%	326	0.62%
	F	515	1.01%	475	0.89%
Mortgage loans	01	1,107	2.16%	1,250	2.38%
	02	4,259	8.32%	3,126	5.95%
	03	1,632	3.19%	2,324	4.42%
	04	814	1.59%	1,253	2.38%
	05	574	1.12%	691	1.31%
	06	510	1.00%	553	1.05%
	07	696	1.36%	1,318	2.51%
	08	1,101	2.15%	132	0.24%
Private individuals	01	101	0.20%	128	0.24%
	02	117	0.23%	90	0.17%
	03	156	0.30%	181	0.34%
	04	328	0.64%	341	0.65%
	05	208	0.41%	275	0.52%
	06	244	0.48%	211	0.40%
	07	168	0.33%	207	0.39%
	08	144	0.28%	135	0.26%
	09	232	0.45%	231	0.44%
	10	3	0.01%	5	0.01%
No internal rating/scoring loans		12,882	25.15%	11,437	21.75%
Total		**51,211**	**100.00%**	**52,606**	**100.00%**

Market risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or share prices.

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. BES's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR stress testing has been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euro)

	31.12.2011			
	December	Annual average	Maximum	Minimum
Exchange Risk	4,872	9,254	11,634	4,872
Interest rate risk	10,764	11,404	14,863	10,764
Shares and commodities	13,554	19,209	12,042	13,554
Volatility	14,291	30,073	57,979	14,291
Credit Spread	15,170	10,434	11,170	15,170
Diversification effect	(11,132)	(15,638)	(19,020)	(11,132)
Total	**47,519**	**64,736**	**88,668**	**47,519**

(in thousands of euro)

	31.12.2010			
	December	Annual average	Maximum	Minimum
Exchange Risk	14,175	20,823	25,604	14,175
Interest rate risk	16,246	10,023	11,117	16,246
Shares and commodities	19,069	27,430	38,517	19,069
Diversification effect	(27,077)	(22,443)	(19,972)	(27,077)
Total	**22,413**	**35,833**	**55,266**	**22,413**

Group has a VaR of euro 47 519 thousand (31 December 2010: euro 22 413 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 repricing intervals.

(in thousands of euro)

	31.12.2011						
	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	278,179	278,179					
Loans and advances to banks	4,509,483	-	4,234,688	42,487	4,952	226,340	1,016
Loans and advances to customers	49,095,349	-	33,287,221	10,443,084	2,274,857	1,797,421	1,292,766
Securities	16,064,643	4,340,115	7,021,587	1,587,333	1,484,844	1,090,437	540,327
Off balance sheet			646,641	(398,000)	(12,000)	(173,906)	(62,735)
Total			**45,190,137**	**11,674,904**	**3,752,653**	**2,940,292**	**1,771,374**
Deposits from banks	16,216,997	-	13,706,517	603,595	680,262	912,891	313,732
Due to customers	33,258,698	-	22,347,830	3,107,676	3,421,871	4,284,310	97,011
Repo´s with clients	318,266	-	267,801	50,465	-	-	-
Debt securities issued and subordinated debt	19,086,329	-	9,370,785	711,284	245,487	6,266,941	2,491,833
Preference shares	-	-	-	-	-	-	-
Off balance sheet			6,457,360	1,339,590	(1,800,949)	(5,719,523)	(276,478)
Total			**52,150,293**	**5,812,610**	**2,546,671**	**5,744,619**	**2,626,098**
GAP (assets - liabilities)			**(6,960,156)**	**5,862,294**	**1,205,982**	**(2,804,327)**	**(854,724)**

(in thousands of euro)

	31.12.2010						
	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	-	-	-	-	-
Loans and advances to banks	5,233,425	-	4,812,102	32,420	152,138	232,865	3,900
Loans and advances to customers	51,126,679	-	34,260,946	10,978,739	2,223,847	2,025,674	1,637,473
Securities	17,587,249	4,370,943	7,473,730	2,393,445	1,758,316	1,305,122	285,693
Off balance sheet		-	519,395	(90,383)	7,325	(295,043)	6,809
Total			**47,066,173**	**13,314,221**	**4,141,626**	**3,268,618**	**1,933,875**
Deposits from banks	14,396,026	-	12,296,393	520,551	540,253	735,257	303,572
Due to customers	29,795,365	-	21,641,465	2,113,872	2,080,051	3,890,925	69,052
Repo´s with clients	436,528	-	436,528	-	-	-	-
Debt securities issued and subordinated debt	27,475,970	-	12,362,357	656,213	226,896	9,646,252	4,584,252
Preference shares	920,033	-	-	-	-	920,033	-
Off balance sheet		-	5,702,263	1,370,396	(184,240)	(6,403,786)	(411,259)
Total			**52,439,006**	**4,661,032**	**2,662,960**	**8,788,681**	**4,545,617**
GAP (assets - liabilities)			**(5,372,833)**	**8,653,189**	**1,478,666**	**(5,520,063)**	**(2,611,742)**

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.

(in thousands of euro)

	31.12.2011				31.12.2010			
	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	175,371	(175,371)	102,191	(102,191)	297,571	(297,571)	168,726	(168,726)
Average for the year	239,334	(239,334)	132,845	(132,845)	320,453	(320,453)	177,813	(177,813)
Maximum for the year	336,477	(336,477)	179,158	(179,158)	333,432	(333,432)	188,564	(188,564)
Minimum for the year	175,371	(175,371)	102,191	(102,191)	297,571	(297,571)	168,726	(168,726)

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 2011 and 2010:

(in thousands of euro)

	31.12.2011			31.12.2010		
	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	5,413,930	170,403	3.15%	6,495,350	215,370	3.32%
Loans and advances to customers	51,519,608	2,678,426	5.20%	52,042,341	2,037,794	3.92%
Securities	13,333,830	737,976	5.53%	13,282,199	669,226	5.04%
Differential applications	11,481	-	-	343,086	-	-
Financial Assets	**70,278,848**	**3,586,805**	**5.10%**	**72,162,976**	**2,922,390**	**4.05%**
Monetary liabilities	16,511,041	460,256	2.79%	13,522,742	193,722	143%
Due to consumers	32,534,704	1,037,772	3.19%	27,145,694	507,825	1.87%
Other	21,233,104	907,186	4.27%	31,494,540	1,056,885	3.36%
Financial Liabilities	**70,278,848**	**2,405,214**	**3.42%**	**72,162,976**	**1,758,432**	**2.44%**
Net interest income		**1,181,591**	**1.68%**		**1,163,958**	**1.61%**

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2011 and 2010, is analysed as it follows:

(in thousands of euro)

		31.12.2011				31.12.2010			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	United States Dollars	(661,275)	835,766	41,845	216,336	(3,426,729)	3,855,544	(198,660)	230,155
GBP	Great Britain Pounds	480,536	(476,598)	(80)	3,858	243,793	(180,981)	14,272	77,084
BRL	Brazilian real	210,597	(200,379)	16,357	26,575	1,143,453	(3,731)	(2,375)	1,137,347
DKK	Danish Krone	216	(3,720)	-	(3,504)	52,071	(3,873)	-	48,198
JPY	Japanese yene	(8,799)	17,400	(10,271)	(1,670)	(330,718)	373,190	(111,436)	(68,964)
CHF	Swiss franc	53,075	(48,646)	(1,291)	3,138	88,969	(84,849)	5,838	9,958
SEK	Swedish krona	(2,138)	1,305	182	(651)	15,232	(17,061)	-	(1,829)
NOK	Norwegian krone	(3,251)	1,030	(54)	(2,275)	1,910	(2,995)	7,689	6,604
CAD	Canadian Dollar	40,169	(62,399)	456	(21,774)	31,403	(20,886)	2,880	13,397
ZAR	Rand	(602)	(715)	2,637	1,320	2,897	(6,844)	(38,589)	(42,536)
AUD	Australian Dollar	98,577	(101,357)	3,106	326	165,596	(158,495)	10,848	17,949
AOA	Kwanza	(228,429)	-	-	(228,429)	(414,047)	-	-	(414,047)
CZK	Czech koruna	3,804	302	(2,247)	1,859	(20,712)	20,842	-	130
MXN	Mexican Peso	61,971	(81,497)	3,215	(16,311)	22,654	(35,668)	34,286	21,272
	Others	(6,276)	(54,170)	80,319	19,873	(42,134)	(3,526)	417,694	372,034
		38,175	**(173,678)**	**134,174**	**(1,329)**	**(2,466,362)**	**3,730,667**	**142,447**	**1,406,752**

Note: asset/(liability)

Exposure to peripheral Eurozone countries public debt

As at 31 December 2011 the exposure to public debt from peripheral Eurozone countries which are monitored by the Group is analysed as follows:

(in thousands of euro)

	31.12.2011					
	Due to costumers	Financial Assets held for trading at fair value	Derivatives instruments [1]	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	876,702	123,852	69,714	2,820,649	-	3,890,917
Spain	109,000	563	1,989	4,096	-	115,648
Greece	-	-	(265)	-	-	(265)
Ireland	-	-	(1,069)	-	-	(1,069)
Italy	-	-	(2,865)	-	-	(2,865)
Hungary	-	-	-	-	-	-
	985,702	**124,415**	**67,504**	**2,824,745**	**-**	**4,002,365**

1) Net values; receivable/ payable

All the exposures presented above, except loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques with observable market data. Loans and advances to customers are recorded at amortized cost net of impairment losses.

A detailed exposure regarding securities recorded in financial assets held for trading and available-for-sale financial assets can be analysed as follows:

(in thousands of euro)

	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**3,187,790**	**2,780,693**	**39,726**	**2,820,649**	**-**	**(124,406)**
Maturity up to 1 year	2,069,941	2,040,481	14,542	2,055,236	-	(16,736)
Maturity exceeding 1 year	1,117,849	740,212	25,184	765,413	-	(107,670)
Spain	**4,036**	**4,027**	**69**	**4,096**	**-**	**(9)**
Maturity up to 1 year	4,014	4,004	68	4,072	-	(4)
Maturity exceeding 1 year	22	23	1	24	-	(5)
	3,191,826	**2,784,720**	**39,795**	**2,824,745**	**-**	**(124,415)**
Financial assets held for trading						
Portugal	126,208	120,458	3,394	123,852	-	-
Spain	568	563	-	563	-	-
	126,776	**121,021**	**3,394**	**124,415**	**-**	**-**

Liquidity risk

Liquidity risk derives from the potential inability to fund assets while satisfying commitments on due dates and from potential difficulties in liquidating positions in portfolio without incurring in excessive losses. The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Further information regarding Group strategy is included in the management report.

2011 was marked by the sovereign debt crisis in the peripheral Euro Zone economies, the slowdown of the global economy, fears over a new world recession, and successive cuts of the sovereign ratings. In this context, the Group kept in place throughout the year a set of contingency measures that enabled it to finance its activities, hence bridging the inaccessibility to financial markets. The measures implemented are divided into three major groups:

- Continuation of the balance sheet deleverage policy implemented since middle of 2010;
- Increase in the level of deposits from customers by strengthening the strategic guidance of maintaining this product as the main funding source;
- Strengthening of assets eligible for discount at the ECB, to ensure access to the main refinancing operations and of longer-term, which have been crucial to overcome the inaccessibility to the short and medium term financial markets, such as covered bond issues and mortgage bonds guaranteed by the state.

During 2011, deposits increased by euro 3.4 billion (+11%). This development was followed by an increase in the average rate of 132 bp, of which 52 bp refers to the increase in Euribor. It should be noted that during the year, the rates of the Portuguese Republic registered an increase towards the Euribor rates between 470 bp in three months period and 1 160 bp in twelve months period. Furthermore, the Group has been updating their pricing policies in credit portfolios and Institutional Business.

Even in an unfavorable environment, the Group continued efforts to diversify its sources of funding, which includes a loan contract of dollar 300 million with China Development Bank Corporation in September for a three years period. The diversification of funding mitigates the liquidity risk and is one of the Group objectives in terms of liquidity risk management.

In order to assess the overall exposure to liquidity risk are made reports that provide not only to identify the negative mismatch, how to make the coverage of drugs.

The following tables present details of the mismatch in the residual terms for each of the main categories of assets and liabilities:

(in million of euro)

	31.12.2011						
	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	436	436	-	-	-	-	-
Loans and advances to banks and central banks	4,510	2,368	823	1,037	42	8	232
Loans and advances to customers	48,371	614	1,610	1,800	1,652	2,543	40,152
Securities*	19,307	536	1,727	2,193	727	474	13,650
Other assets, net	3,779	3,779	-	-	-	-	-
Off-balance sheet items (Commitments and Derivatives)	6,141	217	175	535	856	475	3,883
Total		**7,950**	**4,335**	**5,565**	**3,277**	**3,500**	**57,917**
LIABILITIES							
Deposits from banks, central banks and other loans	16,535	3,642	2,319	2,457	583	462	7,072
Due to customers	33,259	85	1,065	1,987	531	1,067	28,524
Debt securities issued	19,124	30	2,774	2,944	555	209	12,612
Other short-term liabilities	1,683	1,683	-	-	-	-	-
Off-balance sheet items (Commitments and Derivatives)	12,221	282	292	754	939	539	9,415
Total		**5,722**	**6,450**	**8,142**	**2,608**	**2,277**	**57,623**
GAP (Assets - Liabilities)		**2,228**	**(2,115)**	**(2,577)**	**669**	**1,223**	**294**
Accumulated GAP		**2,228**	**113**	**(2,464)**	**(1,795)**	**(572)**	**(278)**
Buffer > 12 months						**2,794**	

* This caption includes securities held by the Group which can be rediscounted with the ECB for liquidity purposes.

(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.

The table reflects all amounts of assets, liabilities and off balance sheet items that have cash flows classified into levels of residual term to maturity. For items where there is no defined maturity (deposits, overdrafts, current accounts and commitments to third parties) behavioral models based on historical information were used, reflecting the expected maturity of the cash flows. For the majority of deposits with maturity and given its specific behavior we used also a behavioral model that reflects the expected maturity.

Additionally, it is also performed an on-going monitoring of the liquidity position, calculated in accordance with the Bank of Portugal rules (Instrution nr.13/2009):

(in million of euro)

	31.12.2011	31.12.2010
Accumulated mismatch [1]	(573)	(5,463)
Net assets buffer [2]	2,794	5,502
Liquidity position	**2,221**	**39**
Other assets acceptable as collateral	222	1,491
Global liquidity	**2,443**	**1,530**

(1) The accumulated mismatch corresponds to the difference 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 2011, the treasury Gap was positive in the amount of euro 2 443 million (31 December 2010: euro 1 530 million).

On 31 December 2011, the pool of elegible securities for the repos market stood at euro 18.9 billion. From this amount, euro 15.1 billion were eligible for operations with the ECB, of which euro 11.1 billion were used.

In order to try to anticipate possible constraints, BES Group considers extreme scenarios in terms of liquidity. It is calculated at 3 months, but depending on the severity of the scenarios, the period may change. The balance and off balance sheet cash flows, are subject to specific scenarios and scenarios to assess the systemic effect of extreme, but plausible, events on the liquidity positions. The results of these scenarios are then compared with the liquidity buffer and with the contingency plan to ensure that the Group is able to generate sufficient liquidity in case of extreme events. These results are also an input for the definition of the objectives of liquidity positions at risk, as well as, to the definition of the liquidity contingency plan of BES Group. This plan was set in order to mitigate the impact of a liquidity crisis by setting up mechanisms to detect crisis, and clear and decisive strategic responses to liquidity crisis.

For 2012 and foreseeing the continuance of the sovereign debt crisis in Eurozone, BES issued, on January 2012, a EUR 1,000,000,000 3-year Floating Rate Bonds, benefiting from a guarantee of the Republic of Portugal and, on February 2012, an additional issuance of €1,500,000,000 3 year Floating Rate Bonds, benefiting from a guarantee of the Republic of Portugal. These two issues help to increase the assets eligible for discount at the ECB in euro 2,500 million, which amounts to almost the entire amount of emissions from medium and long term that matures in the first quarter of 2012.

The continued implementation of contigency measures in 2012 will consider the decisions taken by the ECB, at the meeting of last December, and were as follows:

- Reducing the reference interest rate to 1%;
- Reducing the ratio of minimum reserves for the European Banking from 2% to 1%;
- Estabilishment of a new liquidity providing operation for a 3 years period (previously with a maximum period of thirteen months) to occur in 29 February 2012 (in addittion to the already introduced in December 2011); and
- Adoption of less restrictive eligibility rules for collaterals accepted by the ECB on rediscount operations.

The ECB decisions aimed on one hand, to easier access to liquidity from the banking sector in the Eurozone and, secondly, to restore the normal functioning of the interbank money market.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviors, information systems and external events.

To manage operational risk, it was developed and implemented a system that standardizes, systematizes and regulates the frequency of actions with the objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Capital management and solvability ratio

The main objective of the Group capital management is to ensure complicance with the Group's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by supervisors.

The definition of the strategy in terms of capital adequacy is made by the Executive Committee and is integrated in the global goals of the Group.

The Group is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the prudential rules to be attended by the institutions under its supervision. These rules determine a minimum solvability ratio in relation to the requirements of the assumed risks that institutions have to fulfill.

In the scope of the implementation of the new capital accord Basel II, and using the permission granted by the new prudential regime established by Decree-Law 103/2007 and Decree-Law 104/2007, the Group was authorized to use, starting 31 March 2009, the approach based in the use of internal models for credit risks (Foundation Internal Rating Based Approach – IRBF) for credit risk and the Standardized Approach – TSA) for operational risk.

The capital elements of BES Group are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

- **Own funds considered as Core Tier I:** This category includes primarly the realized capital, the eligible reserves (excluding the positive fair value reserves), the retained earnings of the period (when audited) and the non-controlling interest. The unrealized losses recognized under the fair value reserve and associated with equity securities, book value of goodwill, intangible assets, negative actuarial deviations from employees benefits up to 31 December 2007 and, when applicable, the losses of the period are deducted in full.
- **Basic Own Funds (BOF):** In addition to the amounts considered as Core Tier I, this category includes the preference shares and hybrid capital instruments. From 2007, 50% of the book value of investments in banking and insurance associates over 10% also has to be deducted. Since 2009, following the application of the IRBF method for credit risk, it is also adjusted 50% of the expected losses of risk positions less any existing provisions.
- **Complementary Own Funds (COF):** Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value and since 2009, is also deducted 50% of the expected losses of the risk positions less any existing provisions, following the application of the IRBF method for credit risk.
- **Deductions (D):** Essentially incorporates the prudential amortization of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF cannot exceed the BOF. Also, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In December 2008, the Bank of Portugal issued the Notice 11/2008, establishing a transitory period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008, deducted from the expected return of the fund plan assets for the same year. As a consequence, the annual amount to be incorporated is euro 137 million.

In May 2011 and in the context of the negotiation of the Financial Assistance Programme to Portugal – with the European Commission, the European Central Bank and the International Monetary Fund – the Bank of Portugal issued the Notice 3/2011, establishing new minimum levels of solvency to be followed by the financial groups subject to its supervision. Therefore, Portuguese credit instituitions must reach a Core Tier I ratio of no less than 9% by 31 December 2011 and 10% by 31 December 2012.

As at 31 December 2011 and 2010, the main movements occurred in BOF are as follows:

(in million of euro)

	31.12.2011	31.12.2010
Balance at the beggining of the period	**6,040**	**5,405**
Capital increase (exchange of hybrid instruments for capital)	521	-
Hybrid instuments	(675)	320
Retain profit for the year	(119)	330
Non-controlling interest, excluding hybrids	94	207
Goodwill	139	(123)
Changes on actuarial Losses	144	(196)
Recognition of the impact of adopting IFRS	(13)	(12)
Deduction in connection with investments held in banking and insurance entities	202	131
Fair value reserves with an impact in BOF	(164)	(13)
Other effects	2	(9)
Balance at the end of the period	**6,171**	**6,040**

The capital adequacy of BES Group as at 31 December 2011 and 2010 is presented as follows:

(in million of euro)

		31.12.2011	31.12.2010
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		5,106	4,585
Elegible reserves and retained earnings (excluding fair value reserves)		1,195	1,310
Minority Interest		585	491
Intangible assets		(142)	(140)
Changes on actuarial Losses		(215)	(359)
Goodwill		(340)	(479)
Fair value reserves with an impact on BOF		(194)	(30)
Recognition of the impact of adopting IFRS		25	38
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**6,020**	**5,416**
Preference shares		211	600
Hybrid instuments, elegible for Tier I		34	320
Deductions in connection with investments held in banking and insurance entities		(94)	(296)
Basic own funds (Tier I)	**(A2)**	**6,171**	**6,040**
Positive fair value reserves (45%)		25	84
Eligible subordinated debt		923	1,925
Deductions in connection with investments held in banking and insurance entities		(90)	(207)
Complementary own funds (Tier II)		**858**	**1,802**
Deductions		**(59)**	**(44)**
Eligible own funds	**(A3)**	**6,970**	**7,798**
B- Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		59,705	60,610
Calculated according Notice 8/2007 (Market Risk)		1,742	4,219
Calculated according Notice 9/2007 (Operational Risk)		3,938	3,973
Risk Weighted Assets Total	(B)	65,385	68,802
C- Prudential Ratios			
Core Tier 1	(A1 / B)	9.2%	7.9%
Tier 1	(A2 / B)	9.4%	8.8%
Solvency Ratio	**(A3 / B)**	**10.7%**	**11.3%**

Plans Financing and capitalization (2011 - 2015)

According to the Memorandum of Economic and Finacial Policies signed between the Portuguese Government and the European Comission (EC), European Central Bank (ECB) and International Monetary Fund (IMF), Portuguese banks have had to develop financing and capitalization plans for the period from 2011 to 2015, in order to achieve the following objectives:

- The loans to deposits ratio should reach a maximum value of 120% from December 2014, inclusive;
- The stable funding ratio should be 100% from December 2014, inclusive;
- The Core Tier I ratio should be 9% as at 31 December 2011 and 10% as at 31 December 2012 as established in Notice 3/2011 of Bank of Portugal.

Additionally, the financing plans of the banks should consider that the dependence of branches and subsidiaries abroad of domestic funds should be minimized; must reduce its dependence on funding from the ECB; consider a moderate access to short-term market and a gradual opening of the medium and long term market from the fourth quarter of 2013; and should be supported by policies to support the commercial sectors of the Portuguese economy, namely the small and medium enterprises.

In order to prepare the initial plan and the quarterly reviews, projections on the relevant domestic macroeconomic variables, of GDP growth in the geographic areas of greatest relevance to the activities of the banks and further projections of interest rates and other reference parameters necessary for drawing up the plans are provided by the Bank of Portugal in conjunction with the EC/ECB/IMF. In the context of the plan for the period in reference, it is also noted the fact that the same is being object of a stress test exercise where the banks should, in a extreme scenario, present a Core Tier I ratio higher than 6% during the period (2011-2015). As at 31 December 2011 the Group was reviewing the implementation of September 2011 plan, cheking the compliance with the targets set for both the loans to deposits ratio (real: 141%; planed: 148%), the stable funding ratio (real: 85%; planed: 82%) and the Core Tier I ratio (real: 9.2%; planed: 9.2%).

In the context of the stress-test exercise conducted by the European Banking Authority (EBA), where is required the compliance with a minimum Core Tier I ratio of 9%, after a prudent evaluation of the exposure to sovereign debt as at 30 September 2011, it was identified the need for additional capital needs in the amount of euro 810 million, from which the amount of euro 121 million corresponds to the mark to market of the sovereign debt exposures.

In order to comply with the required capitalization levels, including EBA requirements, the Group expects to meet the capital needs through market operations and without recourse to public funds.

NOTE 46 – Contractual Commitments

Securitization transactions

During the year 2011, the securitization transactions originated by BES suffered successive rating downgrades, following the downgrades attributed by various rating agencies to the Portuguese Republic and Portuguese banks. Traditionally, these operations include in their structures different risk protection mechanisms, namely the substitution of counterparties when credit ratings fall below minimum levels required by rating agencies or by triggering corrective actions enabling the mitigation of the exposure risk to those counterparties.

BES acts as manager of the securitized loans in all transactions originated by the Bank or by other Group entities. In general, on the most recent operations, the credit manager downgrade for levels below investment grade implies some kind of corrective action to avoid the downgrade of the securities issued. In this sense, the securitization of credit to small and medium sized companies conducted by BES in December 2010 – Lusitano SME No.2, following the downgrade of BES by Moody's in July 2011, forced the Bank to set up a liquidity reserve amounting to approximately euro 110 million form a third bank and to hire a back-up servicer.

In addition, BES acted as swap counterparty in two of its operations (Lusitano Mortgage No.6 and Lusitano Mortgage No.7). The performance of these functions in securitization transactions is restricted to entities that meet the minimum rating levels established by the rating agencies. Therefore, following the downgrades, BES position in the operation Lusitano Mortgage No.6 was transferred to a financial institution that meets the eligibility criteria of the agencies and in the operation Lusitano Motgage No.7, the Group preceded to the restructuring of the operation.

Covered Bonds

The issues of covered bonds also suffered a strong impact caused by the downgrade of the Portuguese Republic and the Portuguese banks. As a result, BES could no longer be the counterparty in interest rate swaps transactions and proceeded to its transfer and, in some cases, to its cancelation.

Contract Support Annex (CSA)

BES has a set of contracts negotiated with counterparties with who trades derivative in the OTC market. CSA takes the form of collateral agreement established between two parties dealing with each other derivatives Over-the-Counter, with the main objective to provide protection against credit risk, establishing for the purpose a set of rules regarding the collateral. Derivatives transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have a minimum margin of risk that may change according to the parties rating.

NOTE 47 – Changes in Accounting Policies

At the end of the year 2011, the Group decided to change the accounting policy related to the recognition of actuarial deviations, no longer using the corridor method and starting to account actuarial gains and losses in other comprehensive income (Other comprehensive income – OCI), as allowed by paragraph 93A of IAS 19.

The decision to change the accounting policy was based on the understanding that the recognition of actuarial gains and losses in equity under other comprehensive income provides more relevant information about the Group's position in relation to its liabilities with post employment benefits. This approach is supported by the IASB paragraph BC48B IAS 19, which state that the recognition of actuarial gains and losses directly in equity provides more reliable information about the operations rather than the corridor method.

In accordance with paragraph 29 of IAS 8, the change in accounting policy makes it necessary the restatement of the Group financial statements as if the Group had always adopted the recognition directly in share capital of actuarial gains and losses.

Therefore, we present below the adjustments made to the Group's financial statements as at 1 January 2010 and 31 December 2010:

(in thousands of euro)

Balance Sheet	1 January 2010			31 December 2010		
	Reported	Adjusted	Restated	Reported	Adjusted	Restated
Assets						
Cash and deposits at central banks	2,192,317	-	2,192,317	930,505	-	930,505
Deposits with banks	610,574	-	610,574	557,972	-	557,972
Financial assets held for trading	4,459,484	-	4,459,484	3,942,061	-	3,942,061
Other financial assets at fair value through profit or loss	1,002,301	-	1,002,301	1,424,331	-	1,424,331
Available-for-sale financial assets	8,531,600	-	8,531,600	11,774,881	-	11,774,881
Loans and advances to banks	7,997,807	-	7,997,807	4,245,436	-	4,245,436
Loans and advances to customers	48,978,847	-	48,978 847	50,829,123	-	50,829,123
Held-to-maturity investments	2,541,829	-	2,541,829	2,458,800	-	2,458,800
Derivatives for risk management purposes	455,115	-	455,115	447,304	-	447,304
Non-current assets held for sale	407,585	-	407,585	574,550	-	574,550
Property and equipment	658,773	-	658,773	809,037	-	809,037
Intangible assets	137,885	-	137,885	233,537	-	233,537
Investments in associates	793,815	-	793,815	961,908	-	961,908
Current income tax assets	20,929	-	20,929	99,396	-	99,396
Deferred income tax assets	187,871	243,960	431,831	283,367	257,319	540,686
Other assets	3,320,468	(839,061)	2,481,407	4,083,219	(884,528)	3,198,691
Total Assets	**82,297,200**	**(595,101)**	**81,702,099**	**83,655,427**	**(627,209)**	**83,028,218**
Liabilities						
Deposits from central banks	3,817,643	-	3,817,643	7,964,820	-	7,964,820
Financial liabilities held for trading	1,561,143	-	1,561,143	2,088,007	-	2,088,007
Deposits from banks	6,895,720	-	6,895,720	6,380,592	-	6,380,592
Due to customers	25,446,450	-	25,446,450	30,819,220	-	30,819,220
Debt securities issued	33,101,099	-	33,101,099	24,109,939	-	24,109,939
Derivatives for risk management purposes	253,148	-	253,148	228,944	-	228,944
Non-current liabilities held for sale	21,609	-	21,609	5,411	-	5,411
Provisions	179,851	-	179,851	214,706	-	214,706
Current income tax liabilities	133,616	-	133,616	25,324	-	25,324
Deferred income tax liabilities	79,216	-	79,216	115,660	-	115,660
Subordinated debt	2,639,071	-	2,639,071	2,291,833	-	2,291,833
Other liabilities	1,229,751	-	1,229,751	1,934,723	-	1,934,723
Total Liabilities	**75,358,317**	**-**	**75,358,317**	**76,179,179**	**-**	**76,179,179**
Equity						
Share capital	3,500,000	-	3,500,000	3,500,000	-	3,500,000
Share premium	1,085,399	-	1,085,399	1,085,398	-	1,085,398
Other equity instruments	-	-	-	269,953	-	269,953
Treasury stock	(25,083)	-	(25,083)	-	-	-
Preference shares	600,000	-	600,000	600,000	-	600,000
Other reserves, retained earnings and other comprehensive income	1,495,010	(592,922)	902,088	968,967	(670,882)	298,085
Profit for the period attributable to equity holders of the Bank	-	-	-	510,520	46,381	556,901
Total Equity attributable to equity holders of the Bank	**6,655,326**	**(592,922)**	**6,062,404**	**6,934,838**	**(624,500)**	**6,310,338**
Non-controlling interest	283,557	(2,179)	281,378	541,410	(2,709)	538,701
Total Equity	**6,938,883**	**(595,101)**	**6,343,782**	**7,476,248**	**(627,209)**	**6,849,039**
Total Equity and Liabilities	**82,297,200**	**(595,101)**	**81,702,099**	**83,655,427**	**(627,209)**	**83,028,218**

(in thousands of euro)

Income Statement	31 December 2010		
	Reported	Adjusted	Restated
Interest and similar income	3,727,898	-	3,727,898
Interest expense and similar charges	2,563,940	-	2,563,940
Net interest income	**1,163,958**	**-**	**1,163,958**
Dividend income	193,292	-	193,292
Fee and commission income	886,808	-	886,808
Fee and commission expenses	(117,475)	-	(117,475)
Net gains/ (losses) from financial assets and financial liabilities at fair value through profit or loss	(191,470)	-	(191,470)
Net gains from available-for-sale financial assets	364,436	-	364,436
Net gains from foreign exchange differences	46,731	-	46,731
Net gains/ (losses) from the sale of other assets	(12,369)	-	(12,369)
Other operating income and expense	(13,634)	-	(13,634)
Operating income	**2,320,277**	**-**	**2,320,277**
Staff costs	628,320	(46,450)	581,870
General and administrative expenses	441,057	-	441,057
Depreciation and amortisation	100,092	-	100,092
Provisions net of reversals	49,343	-	49,343
Loans impairment net of reversals and recoveries	351,809	-	351,809
Impairment on other financial assets net of reversals and recoveries	76,332	-	76,332
Impairment on other assets net of reversals and recoveries	56,135	-	56,135
Operating expenses	**1,703,088**	**(46,450)**	**1,656,638**
Gains on disposal of investments in subsidiaries and associates	46,401	-	46,401
Share of profit of associates	37,175	-	37,175
Profit before income tax	**700,765**	**46,450**	**747,215**
Income tax			
Current tax	59,673	-	59,673
Deferred tax	(15,899)	-	(15,899)
Profit for the period	**656,991**	**46,450**	**703,441**
Attributable to equity holders of the Bank	**510,520**	**46,381**	**556,901**
Attributable to non-controlling interest	**146,471**	**69**	**146,540**
	656,991	**46,450**	**703,441**

The adjustments made to other comprehensive income for the year ended 31 December 2010 can be analised as follows:

(in thousands of euro)

Statement of comprehensive income	31 December 2010		
	Reported	Adjusted	Restated
Profit for the period			
Attributable to equity holders of the Bank	510,520	46,381	556,901
Attributable to non-controlling interest	146,471	69	146,540
	656,991	**46,450**	**703,441**
Other comprehensive income for the period			
Long-term benefits	-	(91,918)	(91,918)
Exchange differences	16,621	-	16,621
Deferred taxes	(3,017)	13,359	10,342
	13,604	**(78,559)**	**(64,955)**
Available-for-sale financial assets			
Gains/ (losses) arising during the period	(45,535)	-	(45,535)
Reclassification adjustments for gains/ (losses) included in the profit or loss	(334,634)	-	(334,634)
Deferred taxes	64,787	-	64,787
	(315,382)	**-**	**(315,382)**
Total comprehensive income/(loss) for the period	**355,213**	**(32,109)**	**323,104**
Attributable to equity holders of the Bank	**206,221**	**(31,510)**	**174,711**
Attributable to non-controlling interest	**148,992**	**(599)**	**148,393**
	355,213	**(32,109)**	**323,104**

The detail of the adjustments made to amend the accounting policy is analysed as follow:

(in thousands of euro)

	Actuarial deviations in balance sheet in accordance with previously accounting policy	Impact of change in accounting policy		
		Assets	Income	Profit/Loss
Gross Amount				
1 January 2010	839,061	(839,061)	(839,061)	-
Actuarial losses for the period	92,096	(92,096)	(92,096)	-
Amortisation for the period	(46,450)	46,450	-	46,450
Others	(179)	179	179	-
31 December 2010	884,528	(884,528)	(930,978)	46,450
Tax				
1 January 2010		243,960	243,960	-
Tax for the period		13,359	13,359	-
31 December 2010		257,319	257,319	-
Net effect				
1 January 2010		(595,101)	(595,101)	-
31 December 2010		(627,209)	(673,659)	46,450
Net effect attributable to equity holders of the bank				
1 January 2010			(595,922)	
31 December 2010			(670,882)	46,381

NOTE 48 – 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 2011, the Group adopted the following standards and interpretations that are effective since 1 January 2011:

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. Earlier application is permitted.
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 adoption of this amendment by the Group had no impact on its financial statements.

Annual Improvement Project

In May 2010, IASB published the Annual Improvement Project making 11 amendments to 7 existing standards. The effective date of the amendments, possibility of early adoption and application requirements in the transition are defined in each standard. Most changes are effective since 1 January 2011.

The adoption of these amendments 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 are analysed bellow. The Group will apply these standards when they became 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 recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss;

The Group is evaluating the impact of adopting this interpretation on its financial statements.

IFRS 10 - Consolidated Financial Statements

On May 2011 the International Accounting Standards Board (IASB) published IFRS 10 – Consolidated Financial Statements. The amendment is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation — Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (facto control).
The main objectives included in this standard are:

- Introduction of a single consolidation model for all types of entities, ensuring that an entity consolidates all entities it controls;
- Introduction of more extensive disclosure requirements, particularly on investments which the entity does not consolidate.

The Group is evaluating the impact of adopting this interpretation on its financial statements.

IFRS 11 - Joint Arrangements

On May 2011 the International Accounting Standards Board (IASB) published IFRS 11 – Joint Arrangements. The amendment is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted.
IFRS 11 supersedes IAS 31, maintaining the same definition of joint arrangement. Nothwithstanding, two new joint arrangements categories were introduced: 1) Joint operations and 2) Joint ventures.
The main exchanges introduced by this standard were:

- The structure of joint arrangements is no longer a critical factor for the accounting model. The classification of a joint arrangement requires entities to consider the structure of the arrangement, the legal form of the separate vehicle in which the arrangement might have been structured, the terms of the contractual arrangements and other facts and circumstances;
- Introduction of mandatory application of full consolidation method, eliminating proportionate consolidation as a method to account for joint arrangements.

The Group is evaluating the impact of adopting this interpretation on its financial statements.

IFRS 12 - Disclosure of Interests in Other Entities

On May 2011 the International Accounting Standards Board (IASB) published IFRS 12 – Disclosure of Interests in Other Entities. The amendment is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted.
More detailed disclosures about the involvement with entities that consolidate (subsidiaries) and those that do not consolidate, namely:

- The nature of, and risks associated with, its interests in other entities; and
- The effects of those interests on its financial position, financial performance and cash flows.

The Group is evaluating the impact of adopting this interpretation on its financial statements.

IFRS 13 - Fair Value Measurement

On May 2011 the International Accounting Standards Board (IASB) published IFRS 13 – Fair Value Measurement. The amendment is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted.
This standard presents a revised concept of fair value as well as new reporting requirements.

The Group expects no impact from the adoption of this amendment on its financial statements.

IAS 27 - Consolidated and Separate Financial Statements

On May 2011 the International Accounting Standards Board (IASB) published IAS 27 – Consolidated and Separate Financial Statements. The amendment is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IAS 27 (2011) introduces no amendments on the application requirements of IAS 27 as part of the financial statements, only clarifies: 1) an entity prepares separate financial statements that comply with International Financial Reporting Standards, and 2) need of disclosure requirements.

The Group expects no impact from the adoption of this amendment on its financial statements.

IAS 28 - Investments in Associates and Joint ventures

On May 2011 the International Accounting Standards Board (IASB) published IAS 28 – Investments in Associates and Joint Ventures. The amendment is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted.
IAS 28 supersedes IAS 28 (2003) and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IFRS 11 determines the type of joint agreement envolving an entity, and once determined the interest in a joint venture, an entity applies the equity method in consolidated accounts according to IAS 28 (revised), excluding the exceptions provided by this standard.
IFRS 12 describes the disclosure requirements of information.

The Group expects no impact from the adoption of this amendment on its financial statements.

IFRS 7 (Amendment) - Disclosures - Offsetting Financial Assets and Financial Liabilities

On May 2011 the International Accounting Standards Board (IASB) published IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities. The amendment is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 7 amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The Group expects no impact from the adoption of this amendment on its financial statements.

IAS 32 (Amendment) - Offsetting Financial Assets and Financial Liabilities

On May 2011 the International Accounting Standards Board (IASB) published IAS 32 – Offsetting Financial Assets and Financial Liabilities. The amendment is applicable for annual periods beginning on or after 1 January 2014. Earlier application is permitted.
This amendment deleted paragraph AG38 and added paragraphs AG38A-AG38F, regarding the conditions required to the presentation of financial assets and liabilities by its net amount, in the financial statements of an entity:

- To meet the criterion that an entity must currently have a legally enforceable right of set-off, and
- To meet the criterion that an entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group is currently evaluating the impact of the adoption of this amendment.

NOTA 49 – Subsequent Events

- In 2 January 2012 BES opened a new branch in Luxembourg, where Portuguese immigrant community has a significant presence.
- In January 6 and February 17, 2012, Banco Espírito Santo issued debt issues guaranteed by the Portuguese Republic in the amount of euro 1 000 million and euro 1 500 million, respectively, with a term of three years and a variable rate.

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)

In its Circular Letter no. 58/2009/DSB of 5 August 2009, the Bank of Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/08/DSBDR of 15 July 2008 and no. 97/08/DSB of 3 December 2008.

The Bank of Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the CEBS and FSF recommendations.

This chapter aims to ensure compliance with the Bank of Portugal's recommendation, including references to where the information provided may be found within the body of the Management Report or in the Notes to the Financial Statements for fiscal years 2010 and 2011.

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[1].

2. Strategies and Objectives

A description of the Group's strategy and objectives is provided in the Item 1.6 of the Management Report Note no. 45, under Funding and Capitalisation Plans (2011—2015). The securitization transactions are detailed in Note 43.

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 45 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

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); and 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.

Activity during 2011 was conducted in a climate of deterioration of Portugal's economic situation, with a negative impact on risk. Consequently the Group decided to reinforce provisions by a total of EUR 848.3 million (EUR 314.7 million more than in 2010). The situation of the financial markets and sovereign risk context also impacted the fair value reserve, whose value decreased by EUR 504.5 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 20 and 39, while the most significant positions are detailed in Note 20.

13. Financial turmoil and the price of the BES share

Item 1.7 of the 2011 Management Report presents the BES share price performance and the factors that influenced this performance.

14. Maximum loss risk

Item 5 the Management Report and Note 45 contains the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 44 contains information on the impact of debt revaluation and the methods used to calculate their impact on the results.

[1] The numbering refers to the Notes to the Consolidated Financial Statements

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

The turmoil occurred in 2011 and 2010 resulted from the deterioration of sovereign risk in the peripheral Eurozone countries. As at 31 December 2010 BES Group's total exposure to these countries' public debt was EUR 2,286 million (of which EUR 1,955 million to Portugal, EUR 309 million to Greece – reimbursed on 14 January 2011 -, and EUR 21 million to Spain), to which was associated a negative fair value reserve of EUR 27 million.
As at 31 December 2011 BES Group's total exposure to these countries' public debt was EUR 2,950 million (of which EUR 2,945 million to Portugal and EUR 5 million to Spain), to which was associated a negative fair value reserve of EUR 124.4 million. As of this date the Group had no exposure to Italian, Irish, Greek or Hungarian public debt.

19. Movement in exposures between periods

Note 45 contains diverse information comparing the exposures and results in 2010 and 2011. 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 43. 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 43.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this annex. Notes 2 and 44 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 Annual, Interim and Quarterly Management Report, the Financial Statements and the respective Notes, and the Corporate Governance Report.

The management report and 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

The Sustainability Report, which forms an integral part of the Annual Report, conveys the Group's perspective on corporate social responsibility in the context of the multiple challenges facing the modern world, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

A detailed description of all the means used by the Group to communicate with the financial community is provided in item III.16 of the 2011 Corporate Governance Report.

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental_Av. Praia da Vitória, 71 - A, 11º_1069-006 Lisboa _Portugal
Error! Unknown document property name.

Telefone: +351 210 110 000_Fax: +351 210 110 121_Internet: www.kpmg.pt

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 2011, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2011 (showing total assets of Euro 80,237,372 thousand and total equity attributable to the equity holders of the Bank of Euro 5,604,028 thousand, including a net loss attributable to the equity holders of the Bank of Euro 108,758 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.

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a firma portuguesa membro da rede KPMG, composta por firmas independentes afiliadas da KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG & Associados - S.R.O.C., S.A. Capital Social: 2.840.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 9093

Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 078

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 2011, 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, 29 February 2012

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)

CONSELHO DE ADMINISTRAÇÃO
Comissão de Auditoria
Av. da Liberdade, 195-8º
1250-142 Lisboa

REPORT OF THE AUDIT COMMITTEE
FOR THE YEAR 2011

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 2011, and our opinion on both (i) the Management Report of the Board of Directors and the unconsolidated and consolidated financial statements prepared by the Management of **Banco Espírito Santo, S.A.** for the year ended 31 December 2011, and (ii) the related Board of Directors' proposal for the allocation of the unconsolidated net loss for the financial year 2011.

In compliance with the applicable legal, regulatory, and statutory responsibilities, during 2011 the Audit Committee of **Banco Espírito Santo, S.A.** has monitored major developments of the bank's activity, assessed the more significant management strategies and decisions, followed the Board of Directors' discussions regarding the business of the bank, and evaluated 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 issued by the abovementioned bank's Statutory Auditors on the unconsolidated and consolidated financial statements of **Banco Espírito Santo, S.A.** for the year ended 31 December 2011, including their unqualified

1

BANCO ESPIRITO SANTO

Furthermore, we have reviewed the Audit Reports issued by the abovementioned bank's Statutory Auditors on the unconsolidated and consolidated financial statements of **Banco Espírito Santo, S.A.** for the year ended 31 December 2011, including their unqualified professional opinions dated 29 February 2012 on those financial statements, with which we concur.

We have also reviewed the Management Report of the Board of Directors which describes the bank's activity during the financial year 2011, 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 2011;

b) The Board of Directors' proposal for the allocation of the unconsolidated net loss for the financial year 2011, amounting to 133.089.418,85 Euros.

Lisbon, 29 February 2012

The Audit Committee

José Manuel Ruivo da Pena (Chairman)

Luis Daun e Lorena

João de Faria Rodrigues

CRP 092/1 Mod.079 - 3.000 ex. - 12/2011

Corporate Governance Report

The corporate governance rules and structure of Banco Espirito Santo (BES) are based upon a set of core principles that seek to ensure 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.

Knowledge

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 clear 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 2011 report on BES's corporate governance structures and practices incorporates the information elements and follows the model set out in the annex to Portuguese Securities Market Commission ("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

The Corporate Governance Code approved by the CMVM is available at www.cmvm.pt.

0.2.CMVM Recommendations

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 principle. 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. e I.7.
I.4. Companies shall not set a deliberative 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. e I.14.
I.6.1. 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 principle, 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. e II.9.

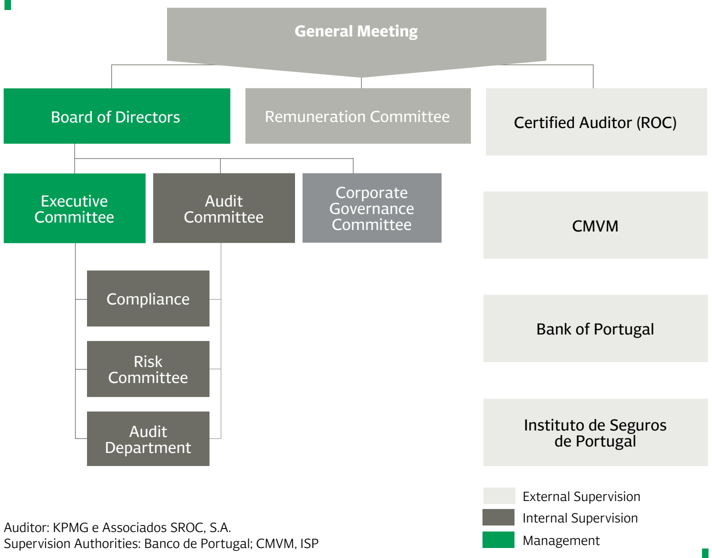
CMVM Recommendations	Adopted	Non Adopted	BES Report
II.1.1.5. The Board of Directors and the supervisory body shall establish internal regulations and shall have these disclosed on the company's website.	X		II.7.
II.1.2.1. The Board of Directors shall include a number of non-executive members that ensure 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. e 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. e Appendix 2
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 3
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. e I.18. II.32. e II.33.
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.	NA		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.			

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. e 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. e 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; iii) in due time identify potential candidates with the high profile required for the performance of director's duties.	X		0.3., II.2. e 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. e 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) 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.
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.	X		III.18.
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.

CMVM Recommendations	Adopted	Non Adopted	BES Report
III.1.5. The company shall not recruit the external auditor, or any entities in a parentsubsidiary 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

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 / Statutory Auditor ("ROC") ("EA/SA"), and also to assess and resolve on the annual management report, corporate governance report, accounts and distribution of earnings for each financial year.

The management of Banco Espirito 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. As of December 31st, 2011 the Board of Directors consisted of 25 members, of whom 7 were 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 9 members as of 31 December 2011. The Corporate Governance Committee 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.

BES is subject to external supervision by its EA/SA, KPMG & Associados SROC, S.A., as well as by the following supervision authorities to which it is subject by virtue of its activity: the Bank of Portugal, the Portuguese Securities Market Commission (CMVM), and the Instituto de Seguros de Portugal (Portuguese Insurance Institute).

In its assessment of the corporate governance model made in 2011, 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 an EA/SA) was adequate and presented no relevant constraints.

Note: In a meeting held in January 2012 the Board of Directors decided to create a "Remuneration Advisory Committee". This decision viewed compliance with recently issued regulations on the remuneration policy of financial institutions (Decree-Law no. 88/2011, of 20 July, and Bank of Portugal Notice no. 10/2011), which determined that credit institutions of a significant dimension should set up a remuneration committee consisting of non executive directors, responsible for decision shaping on remuneration issues.

Although this report addresses BES's activity in 2011 it will nevertheless refer the main changes arising from said regulations, namely by including as an attachment the proposal that will be submitted to the General Meeting on the remuneration policy for 2012, which views compliance with same regulations.

0.4. Recommendations that are Not Followed by BES and the Reason for the Existing Deviation/ Non Applicable Recommendations

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 deliberative 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. Note: In 2012 a proposal to change the remuneration policy to the effect of including this rule will be submitted to the General Meeting; therefore this Recommendation will be fully complied with.	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.
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.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.	This recommendation is not applicable since the Chairman of the Board of Directors does not have executive functions.	NA
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

I. General Meeting

I.1. Members of the 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.

The Chairman of the Board of the General Meeting is supported by human and logistics resources that are adequate to his needs, taking the financial position of the company into consideration.

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 on 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 – Espirito Santo Commerce, S.A. since October 2005.

I.2. Mandates of the Members of the Board

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 and Other Members of the Board

In 2011 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

According to the legislation in force, only shareholders who on the record date, corresponding to 0 hours (GMT) of the fifth trading 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

In case of suspension of the General Meeting, the same rules referred to in 1.4. shall apply. Hence only shareholders who in the record date, corresponding to 0 hours (GMT) on the fifth trading 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

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

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

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. 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

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 verifying 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

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

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 by electronic means is not allowed

I.13. Access to the Minutes of the General Meetings

Excerpts from the minutes of General Meetings are made available in the Company's website (www.bes.pt/ir) within five days of the meeting.

I.14. Historical Record with the Resolutions of the General Meetings

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

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 March 31st, 2011, 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

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 March 2011, 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

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.

For a description of the plans to attribute shares and/or stock options in force please refer to points II.32 and II.33.

I.18. Intervention of the General Meeting on the Retirement Benefit Plan of the Members of the Board of Directors

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.

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 Espirito 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 twelve 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 held on November 11th, 2011.

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

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

No such measures exist.

I.21. Change in Agreements in Case of Change in Company Control

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

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(1)

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
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
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
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca
Antônio Bornia
Marc Olivier Tristan Oppenheim
Michel Jacques Mathieu
Vincent Claude Pacaud

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" or SA)

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 (Secretary)
Pedro Moreira de Almeida Queiroz de Barros (Deputy Secretary)

1) Board members Messrs Jean-Luc Louis Marie Guinoiseau and Pedro José de Sousa Fernandes Homem have resigned due to retirement, effective on December 23rd and 30th 2011, respectively. Board member Mr. José de Albuquerque Epifânio da Franca resigned his position in January 2012, effective at the end of February.

II.2. Other Committees with Management or Supervision Responsibilities

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
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Amílcar Carlos Ferreira de Morais Pires
João Eduardo Moura da Silva Freixa

Corporate Governance Committee

The Corporate Governance 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 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 (Chair)
Nuno Maria Monteiro Godinho de Matos
José de Albuquerque Epifânio da Franca[2]

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.

2) Mr. José de Albuquerque Epifânio da Franca resigned his position as member of the Board of Directors in January 2012, effective at the end of February.

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.

Remuneration Advisory Committee

The Remuneration Advisory Committee was created in January 2012 as an internal body of the Board of Directors with advisory functions, currently consisting of two independent directors who are not members of the Executive Committee. It was set up with the main objective of meeting the requirements of new regulations on the remuneration policy of financial institutions, namely contained in Decree Law no. 88/2011, of July 20th, and Bank of Portugal Notice no. 10/2011. The Committee has the following members:

Isabel Maria Osório de Antas Mégre de Sousa Coutinho
Nuno Maria Monteiro Godinho de Matos

The Remuneration Advisory Committee has the following responsibilities:

a) draw up proposals and recommendations on the fixing of the remuneration of the members of the Board of Directors and Audit Committee, and senior officers of the Company;

b) provide all necessary support and issue recommendations for the purpose of approval of the company's general remuneration policy for its corporate bodies and senior officers;

c) draw up proposals and recommendations to the effect of ensuring that all branches, subsidiaries, including subsidiaries abroad and offshore branches, and all entities comprised within the Company's;

d) test the capacity of the remuneration system implemented to react to external and internal events, using various possible scenarios and backtesting the model used for the purpose;

e) ensure and carry out a revision of the company's remuneration policies and their implementation at least on an annual basis.

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 e 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, Rui Manuel Duarte Sousa da Silveira, Joaquim Aníbal Brito Freixial de Goes, 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, Joaquim Aníbal Brito Freixial de Goes, 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, 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. 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 and Amílcar Carlos Ferreira de Morais Pires.

e. Sustainability

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 and Joaquim Aníbal Brito Freixial de Goes.

II.3. Organisational Chart, Distribution of Duties and List of Non-Delegable Subject Matters

1. 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:

General Meeting

Remuneration Committee

Board of Directors

Corporate Governance Committee

Executive Committee

Audit Committee

Support Committees

Business Units:
- International
- Private
- Retail (Individuals and Small Businesses)
- Wholesale & Investment Banking

Other
- ALCO (Assets & Liabilities)
- Financial and Credit Committee
- IT, Operations , Quality and Costs
- Risk
- Sustainability

Support Offices

- Corporate Office
- BESart
- General Secretary of the Executive Committee
- Investor Relations
- Company Modernisation
- Solidarity

Marketing and Product Units

- Consumer Credit and Cards
- Direct and Self Banking
- Savings Management
- Real Estate Agents
- Leasing & Factoring
- Marketing - Small Businesses
- Marketing - Retail
- Marketing - Corporates and Institutionals
- Monetization of Corporate Credit

Commercial Units

- Company Monitoring
- Retail (North & South)
- Corporate Banking
- Medium Corporates (North & South)
- International Premium
- Municipalities and Institutionals
- Private Banking
- Universities
- Real Estate &Tourism Credit

Operating Units

- Proprietary Real Estate Management
- Operations
- Mortgage and Real Estate Credit Analysis

Busines Units & Risk

- International Banking
- Divestitures
- Financials , Markets and Studies
- Credit Recovery
- Emigrants
- Global Risk Management

Support Units

- Legal
- Internal Audit
- Compliance
- Corporate Communication
- Information Management
- Security Coordination
- Strategic Marketing
- Comunication Marketing and Consumer Studies
- Procurement and Cost Control
- Organisation
- Planning and Accounting
- Service Quality
- Human Resources
- Research

2. Information on the scope of delegated powers or distribution of functions among the members of management and supervisory bodies

Executive Committee

As of December 31st, 2011 the distribution of areas of responsibility among the members of the Executive Committee was 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 ESEGUR – Empresa de Segurança, S.A..

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 (together with João Freixa), and the branches in Venezuela and Luxembourg (together with Amílcar Morais Pires).

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, Execution of Operations Department, Human Resources, Company Monitoring, Leasing & Factoring. Ensures coordination between BES and Multipessoal – Sociedade de Prestação e Gestão de Serviços, S.A. and Ijar Leasing Algerie Spa.

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, Real Estate Technical Department.

Ensures coordination between BES and 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 between BES and 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).

Rui Manuel Duarte Sousa da Silveira

Current areas of responsibility:
Legal Affairs, Internal Audit, Security Coordination and Business Continuity Departments, Corporate Office.

Member of the following Committees:
Assets and Liabilities (ALCO); Sustainability and Business Continuity.

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 Office, BES University, Credit Recovery, Assurfinance Office. Ensures coordination between BES and Espírito Santo Informática, Espírito Santo Data, Oblog Consulting, BES Companhia de Seguros S.A. and ES Contact Center.

Member of the following Committees:
Retail; Corporate Banking; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC); Risk; Sustainability.

Amílcar Carlos Ferreira de Morais Pires

Current areas of responsibility:
Financial, Markets and Research; Savings Management; Procurement and Costs Control; Organisation; International; Monetisation of Corporate Credit; Management (shared with Ricardo Espírito Santo Salgado); ensures coordination between BES and BES branches in London, New York, Venezuela and Luxembourg (together with José Manuel Espírito Santo) and BES Cayman; the subsidiaries ES Bank, Aman Bank, Moza Banco, Cape Verde, the representative offices abroad and Avistar SGPS, S.A., BES Vida, Companhia de Seguros, S.A., BES Finance, Bank Espírito Santo International, Ltd («BESIL»), BIC International Bank Ldt («BIBL»), and BES Beteiligungs, GmbH.

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.

BES takes the view that the attributes required for the post of CFO do not justify the rotation of the Board with this position, 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 and Cards. Ensures coordination with BES Azores and with the Branch in Spain (shared with Jose Manuel Pinheiro Espirito 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, for supervision of the internal audit and compliance functions 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: 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 report for full description and item II.10. for the respective professional qualifications and activity in the last five years).

3. List of non-delegable subject matter

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.

4. Provision of information

The Chairman of the Executive Committee shall send the convening notices and minutes of the Executive Committee meetings 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

Internal Control System

BES 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 the 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 BES 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 BES Group's risk function, 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 define strategic options in commercial relations and the level of active vigilance required by 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 BES is subject;
- implementing policies and procedures for the prevention and detection of money laundering and terrorism financing;
- ensuring the monitoring and maintenance of the Bank's internal control system, reporting internally and to the Bank of Portugal 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 monetary, dematerialised or 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

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 BES'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 issued by BES's EA/SA.

II.7. Regulations on the Functioning of the Corporate Bodies

All the company's corporate bodies have their own internal regulations, namely the Board of Directors and Executive Committee Regulation, the Audit Committee Regulation, the Corporate Governance Committee Regulation, the Remuneration Advisory 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 their meetings

II.8. Chairman of the Board of Directors

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

In the pursuit of 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

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.

The Extraordinary General Meeting of June 9th, 2011 approved a partial amendment to the Company's articles of association to the effect of authorising the Board of Directors to, upon favourable opinion of the Audit Committee, increase the share capital through cash contributions, one or more times, through the issuance of ordinary shares or preferential shares, redeemable or non redeemable, under the terms and conditions to be defined. The maximum amount authorized, in addition to the share capital amount, is of €7,500,000,000.00, this authorisation being valid for a period of five years.

II.11. Portfolio Rotation on the Board of Directors

There is no policy on portfolio rotation on the Board of Directors.

II.12. Meetings of the Management and Supervisory Bodies

In 2011 BES' Board of Directors held 8 meetings, the Executive Committee 81 meetings, and the Audit Committee 11 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

In 2011 the Executive Committee held 81 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 the Chairman of the Audit Committee.

II.14. Identification of the Executive and Non Executive Members of the Board of Directors and Independence Criteria

The Board of Directors currently consists of 25 members, of whom 9 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 (Alberto de Oliveira Pinto), the three members of the Audit Committee (Jose Pena, Luis Daun e Lorena and João Faria Rodrigues), and the three members of the Corporate Governance Committee (Nuno Godinho de Matos, Isabel de Sousa Coutinho e 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

Name	Date of birth	Nationality	Executive Committee	Independent	Reason for non independence
Alberto de Oliveira Pinto	26/06/1932	Portuguesa	Não	Sim	
Ricardo Salgado	25/06/1944	Portuguesa	Sim	Não	Member of the Executive Committee
Bruno de Laage de Meux	20/08/1951	Francesa	Não	Não	Board Member or contract with shareholder Crédit Agricole, S.A..
José Manuel Espírito Santo	02/05/1945	Portuguesa	Sim	Não	Member of the Executive Committee
António Souto	17/04/1950	Portuguesa	Sim	Não	Member of the Executive Committee
Jorge Martins	17/07/1957	Portuguesa	Sim	Não	Member of the Executive Committee
Aníbal Oliveira	24/09/1935	Portuguesa	Não	Não	Member of the Board of Directors of Espírito Santo Financial Group,S.A..
Manuel Fernando Espírito Santo	20/07/1958	Portuguesa	Não	Não	Member of the Board of Directors of Espírito Santo Financial Group,S.A..
José Maria Ricciardi	27/10/1954	Portuguesa	Sim	Não	Member of the Executive Committee
Jean-Luc Guinoiseau (1)	20/12/1954	Francesa	Sim	Não	Member of the Executive Committee
Rui Silveira	11/12/1954	Portuguesa	Sim	Não	Member of the Executive Committee
Joaquim Goes	09/09/1966	Portuguesa	Sim	Não	Member of the Executive Committee
Pedro Homem (2)	19/07/1947	Portuguesa	Sim	Não	Member of the Executive Committee
Luís Daun e Lorena	11/10/1944	Portuguesa	Não	Sim	
Ricardo Espírito Santo Silva	04/11/1958	Portuguesa	Não	Não	CEO of BESI Brasil
José Pena	05/11/1940	Portuguesa	Não	Sim	
Amílcar Morais Pires	30/05/1961	Portuguesa	Sim	Não	Member of the Executive Committee
Nuno Godinho de Matos	31/10/1949	Portuguesa	Não	Sim	
João Freixa	24/06/1956	Portuguesa	Sim	Não	Member of the Executive Committee
Pedro Amaral	27/06/1968	Portuguesa	Não	Não	Contract with BES
Isabel de Sousa Coutinho	12/12/1946	Portuguesa	Não	Sim	
João de Faria Rodrigues	31/10/1955	Portuguesa	Não	Sim	
José Epifânio da Franca (3)	02/01/1955	Portuguesa	Não	Sim	
Antonio Bornia	22/11/1935	Brasileira	Não	Não	Board Member or contract with shareholder Crédit Agricole, S.A..
Marc Olivier Tristan	24/01/1967	Francesa	Não	Não	Board Member or contract with shareholder Crédit Agricole, S.A..
Michel Jacques Mathieu	03/10/1958	Francesa	Não	Não	Board Member or contract with shareholder Crédit Agricole, S.A..
Vincent Pacaud	19/08/1961	Francesa	Não	Não	Board Member or contract with shareholder Crédit Agricole, S.A..

(1) Board member Mr. Jean-Luc Guinoiseau has resigned, effective at 23/12/2011
(2) Board member Mr. Pedro Homem has resigned, effective at 30/12/2011
(3) Board member Mr. José de Albuquerque Epifânio da Franca resigned his position in January 2012, effective at the end of February.

II.15. Criteria for Assessing the Independence of the Members of 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 BES'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 (CC), and the incompatibilities with the holding of that position are those, mutatis mutandis, indicated in Article 414-A of the CC (making exception to the provisions of its sub-paragraph 1-b).

In order to collect the relevant information allowing the Board of Directors to assess the referred situations, at the beginning of 2012 a questionnaire was drawn up and sent to each of the members of the Audit Committee, to be personally replied, signed and subsequently returned.

This questionnaire contains questions about the circumstances upon which the CC makes independence conditional, and about the incompatibilities established in the same code.

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 members of BES's Board of Directors are not directly subject to the system of assessment of independence and prohibition of incompatibilities which the CC 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 CC (except for item /b) and the independence criteria (Article 414/5, also of the CC).

Hence, in order to collect the relevant information allowing the Board of Directors to assess these situations, at the beginning of 2012 a questionnaire was drawn up and sent to each of the other non executive members of the Board of Directors who were presented as independent directors in BES's 2011 Corporate Governance Report, to be personally replied, signed and subsequently returned.

This questionnaire contains questions about the circumstances upon which the CC makes independence conditional, and about the incompatibilities established in the same code.

Members of the Board of the General Meeting

Pursuant to the CC (Art. 374-A - 1), the members of BES's Board of the General Meeting 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, mutatis mutandis, the concept established in Article 414 (5) of the CC, and the incompatibilities with the holding of that position are also, mutatis mutandis, those indicated in Article 414-A – 1 of the CC.

In order to collect the relevant information allowing the Board of Directors to assess these situations, at the beginning of 2012 a questionnaire was drawn up and sent to each of the members of the Board of the General Meeting, to be personally replied, signed and subsequently returned.

This questionnaire contains questions about the circumstances upon which the CC makes independence conditional, and about the incompatibilities established in the same code.

II.16. Selection Process of Non Executive Board Members

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, and in particular of the non executive members

II.17. Description of the Activity of the Non Executive Board Members

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

Alberto Alves de Oliveira Pinto (Chairman)

Academic qualification: Graduated in Economic and Financial Sciences from Instituto Superior de Ciências Economicas 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 Galp Energia from 2006 to 2008. Non executive member of BES's Board of Directors from February 2006 to March 2008. Chairman of the Board of Directors of BES since March 2008.

No. of shares held on 31/12/2011: 0
First appointment: 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 BES, 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'Etudes Bancaires since 2003 and its Chairman from October 2005 to 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 31/12/2011: 1,384,333
First appointment: 1991
Mandate ends in: 2011

Bruno Bernard Marie Joseph de Laage de Meux (Vice-Chairman)

Academic qualification: Graduated from the Ecole des Hautes Etudes 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 Caisses Régionales, International Retail Banking, Payment Systems and Specialised Financial Services (Consumer Credit, Leasing and Factoring). Appointed member of BES's Board of Directors in April 2010, to replace Jean Frédéric de Leusse.

No. of shares held on 31/12/2011: 0
First appointment: 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 Espirito Santo S.A., executive member of BES's Board of Directors and Vice-Chairman of Espirito Santo Financial Group, S.A.

No. of shares held on 31/12/2011: 357,008
First appointment: 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 BES's Board of Directors. Member of the Board of Directors of SIBS – Sociedade Interbancária de Serviços, S.A..

No. of shares held on 31/12/2011: 38,575
First appointment: 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 BES's Board of Directors. Member of the Board of Directors of Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A..

No. of shares held on 31/12/2011: 132,385
First appointment: 1993
Mandate ends in: 2011

Aníbal da Costa Reis de Oliveira

Academic qualification: General Commercial Management course (Porto) and degree in Chemical Engineering (Germany).

Professional activities carried out during the last five years: Executive positions in companies of the Riopele Group. Non executive member of BES's Board of Directors since 1992.

No. of shares held on 31/12/2011: 1,010,000
First appointment: 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, "Inter-Alpha Banking Programme" - INSEAD, Fontainebleau.

Professional activities carried out during the last five years: Member of BES's Board of Directors since 1994. Executive member of the World Travel & Tourism Council since 2003. Chairman of the Executive Committee of Espirito Santo Resources since 2006. Chairman of the Board of Directors of Rioforte Investments, S.A. since 2008 and of Rioforte (Portugal) S.A. since 2010.

No. of shares held on 31/12/2011: 2,484
First appointment: 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 Economiques, Sociales et Politiques, Institut d'Administration et de Gestion, Belgium.

Professional activities carried out during the last five years: Executive member of BES's Board of Directors. 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.. Member of the Board of Directors of Espírito Santo Financial Group, Espírito Santo International, S.A., and BES Africa SGPS, S.A.. Chairman of the Board of Directors of Espírito Santo Investment Holdings Limited. Member of the General and Supervisory Board of EDP. Member of the Fiscal Board of Sporting Clube de Portugal-Futebol, S.A.D..

No. of shares held on 31/12/2011: 21,789
First appointment: 1999
Mandate ends in: 2011

Rui Manuel Duarte Sousa da Silveira

Academic qualification: Graduated in Law from the Law School of the Lisbon University. Practising lawyer.

Professional activities carried out during the last five years: Executive member of BES's Board of Directors. Member of the Board of Directors of Cimigest – S.G.P.S., S.A; Member of the Fiscal Board of Companhia de Seguros Tranquilidade, S.A.; Chairman of the Board of the General Meeting of AVISTAR S.G.P.S., S.A., BES África, S.G.P.S., S.A., BEST – Banco Electrónico de Serviço Total, S,A, ES Tech Ventures S.G.P.S., S.A., ESAF – Espírito Santo Activos Financeiros S.G.P.S., S.A., Espírito Santo Ventures, Sociedade de Capital de Risco, S.A., Bespar – S.G.P.S., S.A., Espírito Santo Saúde – S.G.P.S., S.A., Partran – S.G.P.S., S.A. and T-Vida, Companhia de Seguros, S.A..

No. of shares held on 31/12/2011: 2,315
First appointment: 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. MBA from INSEAD, Fontainebleau.

Professional activities carried out during the last five years: Executive member of BES's Board of Directors. Member of the Board of Directors of Portugal Telecom since 2000.

No. of shares held on 31/12/2011: 88,805
First appointment: 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 BES's Board of Directors since 2002, and member of BES's Audit Committee.

No. of shares held on 31/12/2011: 0
First appointment: 2002
Mandate ends in: 2011

Ricardo Abecassis Espírito Santo Silva

Academic qualification: Graduated in Economics from The City University, London. Executive Chairman of BES Investimento do Brasil.

Professional activities carried out during the last five years: Member of the Board of Directors of BES Investimento since 2003, where he was appointed Executive Director in 2005. Member of BES's Board of Directors since 2002.

No. of shares held on 31/12/2011: 50,000
First appointment: 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 attending 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 BES's Board of Directors, and until 2007, member of its Audit Committee. 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 Partran, S.A. since 2007. Appointed Chairman of BES's Audit Committee in March 2008.

No. of shares held on 31/12/2011: 0
First appointment: 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: BES General Manager, advisor to BES's Board of Directors and Coordinator of BES's Financial Department, Markets and Surveys until 2004. Executive member of BES's Board of Directors 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 31/12/2011: 40,276
First appointment: 2004
Mandate ends in: 2011

Nuno Maria Monteiro Godinho de Matos

Academic qualification: Graduated in Law from Universidade Clássica de Lisboa. Practising lawyer.

Professional activities carried out during the last five years: . Member of BES's Board of Directors since 2006, and member of its Corporate Governance Committee since 2010.

No. of shares held on 31/12/2011: 0
First appointment: 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 BES's Board of Directors since October 2005, executive member of BES's Board of Directors since 2006, and Vice-Chairman of BES dos Acores since November 2006. Non executive member of the Board of Directors of Unicre – Instituição Financeira de Crédito, S.A. since 2010.

No. of shares held on 31/12/2011: 30,000
First appointment: 2006
Mandate ends in: 2011

Pedro Mosqueira do Amaral

Academic qualification: Graduated in Business Management from the European University, Brussels, Belgium.

Professional activities carried out during the last five years: Member of the Board of Directors of BES GmbH since 2006 and member of BES's Board of Directors since 2008.

No. of shares held on 31/12/2011: 70,000
First appointment: 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, 1969.

Professional activities carried out during the last five years: Chairman of Fundação Pão de Açúcar – Auchan until 2007. Member of BES's Board of Directors since 2008 and Chairman of its Corporate Governance Committee since 2010.

No. of shares held on 31/12/2011: 0
First appointment: 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 BES's Board of Directors since 2008 and member of its Audit Committee.

No. of shares held on 31/12/2011: 0
First appointment: 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. Full professor at IST's Electronics and IT Department and Adjunct Professor at the Electronics Engineering School of the Hong Kong Chinese University.

Professional activities carried out during the last five years: Founder of CHIPIDEA, which for several consecutive years ranked amongst the 500 European companies with better business development and job creation indicators (Europe 500). In 2007, when Chipidea was acquired by MIPS Technologies Inc. (Mountain View, California), a NASDAQ listed company, João Epifânio da Franca joined its Board of Directors and remained Chairman of the Board of Directors of CHIPIDEA's Portuguese subsidiary until September 2008. Member of the General Board of Instituto Superior de Gestão (Lusófona Group), of the Advisory Board of Agrupamento TICE (Tecnologias de Informação, Comunicações e Electrónica), of the Honorary Committee of the Forum Silicon Valley Bridge to Portugal and of the Advisory Board of Beta-i (association for the promotion of entrepreneurship and innovation). He is also a member of the Strategy Committee of StarChip (France) and a non executive member of the Management Board of Quiiq, Lda. He is a member of BES's Board of Directors since 2008 and a member of its Corporate Governance Committee since 2010.

No. of shares held on 31/12/2011: 0
First appointment: 2008
Mandate ends in: 2011

Antônio Bornia

Academic qualification: Secondary education.

Professional activities carried out during the last five years: Started his professional career with Banco Bradesco (1952), where he was appointed assistant manager in 1975 and executive manager in 1979. In 1999 was appointed Vice-Chairman of the Board of Directors of Banco Bradesco, maintaining this position until now. Chairman of the Board of Directors of Bradesco Securities, Inc and Banco Bradesco Europa, S.A. and Vice-Chairman of Bradesco Leasing, S.A.. In April 2010 was appointed member of BES's Board of Directors.

No. of shares held on 31/12/2011: 0
First appointment: 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: In 2007 was appointed Retail Market manager and member of the General Committee of Credit Lyonnais. Manager of International Retail Banking and member of the Executive Committee of Crédit Agricole since June 2010. In 2010 was appointed non executive member of BES's Board of Directors.

No. of shares held on 31/12/2011: 0
First appointment: 2010
Mandate ends in: 2011

Michel Jacques Mathieu

Academic qualification: Graduated in Corporate Law.

Professional activities carried out during the last five years: Appointed general manager of Caisse Régionale du Languedoc, which resulted from the merger of Caisse Régionale du Gard (where he was general manager since 1999) with Caisse Régionale du Midi (where he was general manager since 2005). In 2008 was appointed member of the Board of Directors of Crédit Agricole, in charge of the Finance, Human Resources, Legal and Compliance, IT, Strategy, Economic Surveys and Internal Resources divisions, with further responsibilities in the areas of Insurance, Asset Management, Real Estate Management and Private Equity (CAPE). In 2011 was appointed non executive member of BES's Board of Directors to replace Jean-Yves Hocher.

No. of shares held on 31/12/2011: 0
First appointment: 2011
Mandate ends in: 2011

Vincent Claude Paul Pacaud

Academic qualification: Graduated from the École Polytéchnique, with an MBA from INSEAD.

Professional activities carried out during the last five years: Was CEO of BNP Paribas Assurance in Asia and member of the International Strategy Committee of BNP Paribas Assurance. In 2008 joined the Crédit Agricole Group as head on insurance for Asia and in 2010 was appointed CEO of Crédit Agricole Life Japan. He was appointed a member of BES's Board of Directors in 2011, to replace Michel Goutorbe, and is a member of the Boards of Directors of BESPAR, ESAF, BES Vida and BES Seguros.

No. of shares held on 31/12/2011: 0
First appointment: 2011
Mandate ends in: 2011

II.19. Duties that the Members of the Board of Directors Carry Out in Other Companies

Alberto Alves de Oliveira Pinto (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, S.G.P.S. S.A. (Chairman)
BES Finance, Ltd (Member)
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)
ES Tech Ventures, S.G.P.S., S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., 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 – S.G.P.S., 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)

Other Positions
APDMC – Associação Portuguesa Para o Desenvolvimento do Mercado de Capitais (Member of the General Board)
Associação Portuguesa de Bancos (Member of the Management Board, in representation of Banco Espírito Santo, S.A.)
Stanley Ho Foundation (Member of the General Board)

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)
CA Assurances (Censeur)
CA Consumer Finance (Chairman)
Cariparma e Piacenza S.P.A. (Member)
Crédit Agricole Creditor Insurance (Member)
Crédit Agricole Egypt, S.A.E. (Vice – Chairman)
Crédit Agricole Leasing & Factoring (Member)
Crédit du Maroc (Member of the Supervisory Board)
Emporiki Bank (Member)
Fireca (Member)
Fonds de Garantie de Dépots (Member of the Supervisory Board)
LCL – Le Crédit Lyonnais (Member)
SAS BFORBANK (Member)
Uni – Editions (Chairman)
Union de Banques Arabes et Françaises – U.B.A.F. (Vice-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, S.G.P.S. S.A. (Member)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Member)
Espírito Santo Bank (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Banque Espírito Santo et de la Vénétie, S.A. (Member)
Banque Privée Espírito Santo, S.A. (Chairman)
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)
Ponte Alta – Consultoria e Assistência (Sociedade Unipessoal), Lda. (Member)
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. (Vogal)

Other Positions
Banco Espírito Santo dos Açores, S.A. (Membro da Comissão de Fixação de Remunerações)

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, S.A. (Member)
Ijar Leasing Algérie
SIBS – Sociedade Interbancária de Serviços, S.A. (Member)
SIBS Forward Payment Solutions, S.A. (Member)

Other Positions
ELO – Associação Portuguesa Para o Desenvolvimento Económico e a Cooperação (Vice-Chairman of the General Board)
TF Turismo Fundos – SGFII, S.A. (member of the Remuneration Committee, in representation of Banco Espírito Santo, S.A.)

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)

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)
Olinerg – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Oliren – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Q. L. PORTUGAL – Sociedade de Agricultura e Serviços da Quinta da Lage, Lda. (Member)

Manuel Fernando Moniz Galvão Espírito Santo Silva

Corporate positions held in companies outside BES Group

Board of Directors
Academia de Música de Santa Cecília (Non Executive Chairman)
Ambassador Portugal – Promoção Imobiliária, S.A. (Chairman)
Bensaúde Turismo, S.G.P.S., S.A. (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
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)
Euroamerican Finance S.A. (Chairman)
Herdade da Comporta – Actividades Agro Silvícolas e Turísticas, S.A. (Chairman)
Rio Forte Investments, S.A. (Chairman)
RIOFORTE (Portugal), S.A. (Chairman)
Santogal – Sociedade Gestora de Participações Sociais, S.A. (Member)
SODIM, S.G.P.S., S.A. (Member)
Sapec, S.A. (Member)

Board of the General Meeting
Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade Imobiliária e Turística da Quinta do Perú, 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 e Chairman of the Executive Committee)
BES África, S.G.P.S. S.A. (Member)
BES Investimento do Brasil S.A. (Chairman)
Espírito Santo Investment Holdings Limited (Chairman)

Board of the 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)
Espírito Santo International S.A. (Member)

General and Supervisory Board
EDP – Energias de Portugal, S.A. (Member)

Fiscal Board
Sporting Clube de Portugal – Futebol, S.A.D. (Member)
Sporting Clube de Portugal (Vice-Chairman of the Fiscal and Disciplinary Board)

Board of the General Meeting
Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

Other Positions
APDMC – Associação Portuguesa Para o Desenvolvimento do Mercado de Capitais (Member of the Board of Directors)
EDP – Energias de Portugal, S.A. (Member of the Remuneration Committee of the General and Supervisory Board and Member of the Corporate Governance and Sustainability Committee)

Rui Manuel Duarte Sousa da Silveira

A. Corporate positions held in companies of BES Group

Board of the General Meeting
AVISTAR S.G.P.S., S.A. (Chairman)
Banco Espírito Santo Cabo Verde, S.A. (Chairman)
Banco Espírito Santo dos Açores, S.A. (Chairman)

BES África, S.G.P.S. S.A. (Chairman)
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)
Capital Mais – Assessoria Financeira, S.A. (Chairman)
ES Tech Ventures, S.G.P.S., S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., 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 Gestão de Patrimónios, S.A. (Chairman)
ESAF – Espírito Santo Participações Internacionais, S.G.P.S., 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
Cimigest – S.G.P.S., S.A . (Member)
Sociedade de Administração de Bens Casa de Bons Ares, S.A. (Chairman)
Sociedade de Silvicultura Monte do Arneirinho, Lda (Member)

Fiscal Board
Companhia de Seguros Tranquilidade, S.A. (Member)

Board of the 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 – S.G.P.S., 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, S.G.P.S., S.A. (Member)

Fiscal Board
Centro Social e Paroquial de Nossa Senhora da Ajuda (Chairman)
Fundação Brazelton/Gomes-Pedro Para as Ciências do Bebé e da Família (Member)
Fundação da Universidade Católica Portuguesa (Chairman)

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
BES – Companhia de Seguros, S.A. (Chairman of the Remuneration Committee)
BES – Vida, Companhia de Seguros, S.A. (Chairman of the Remuneration Committee)

Ricardo Abecassis Espírito Santo Silva

A. Corporate positions held in companies of BES Group

Board of Directors
Management Body
AVISTAR S.G.P.S., 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. (Brazil) (Chairman)
Espírito Santo Bank (USA) (Vice-Chairman)

Executive Committee
BES Investimento do Brasil S.A. (Chairman)
Espírito Santo Investimentos S.A. (Brazil) (Chairman)
Gespar Participações Ltda (Brazil) (Member)

Fiscal Board
Banco Espírito Santo do Oriente, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
Management Body
2bCapital S.A. (Member)
Agriways S.A. (Brazil) (Vice-Chairman)
Câmara Portuguesa de Comércio no Brasil (Vice-Chairman)
Europ Assistance (Brazil) (Member)
Espírito Santo Control S.A. (Member)
Espírito Santo International S.A. (Member)
Espírito Santo Property (Brazil) S.A. (Member)
Espírito Santo Resources Limited (Member)
Euroamerican Finance Corporation, Inc. (BVI) (Member)
Novagest Assets Management Ltd (Member)
BHG S.A. – Brazil Hospitality Group (Brazil) (Member)
Monteiro Aranha S.A. (Brazil) (Member)
Pojuca S.A. (Brazil) (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 (Brazil) (Member)
Companhia Agrícola Botucatu (Chairman)
ESAP - Espírito Santo Agro-Pecuária S.A. (Uruguay) (Member)
ESCAE Consultoria, Administração e Empreendimentos, Ltda. (Brazil) (Member)
ES Consultoria Ltda (Brazil) (Partner, Member)
E.S. Holding Administração e Participações, S.A. (Brazil) (Chairman)
Saramagos S.A. Empreendimentos e Participações (Brazil) (Member)

Fiscal Board
Banco Bradesco S.A. (Member)

Advisory Board
Associação Brasileira de Bancos Internacionais S.A. (Member)

José Manuel Ruivo da Pena

Corporate positions held in companies outside BES Group

Fiscal Board
BES - Companhia de Seguros, S.A. (Chairman)
BES – Vida, Companhia de Seguros, S.A. (Chairman)
Companhia de Seguros Tranquilidade, S.A. (Chairman)
Partran – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Amílcar Carlos Ferreira Morais Pires

A. Corporate positions held in companies of BES Group

Board of Directors
AVISTAR S.G.P.S., S.A. (Chairman)
Bank Espírito Santo International Limited (Chairman)
Banco Espírito Santo de Investimento, S.A. (Member)
Banco Espírito Santo do Oriente, S.A. (Member)
BES África, S.G.P.S. S.A. (Member)
BES Finance Ltd (Member)
BIC – International Bank, Limited (Chairman)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Member)
Espírito Santo PLC (Member)
Espírito Santo – Empresa de Prestação de Serviços 2, ACE (Member)
ES Tech Ventures, S.G.P.S., S.A. (Member)
Execution Noble Limited (Non Executive Director)
Execution Noble & Company Limited (Non Executive Director)
Execution Noble Research Limited (Non Executive Director)

B. Corporate positions held in companies outside BES Group

Board of Directors
BES – Vida, Companhia de Seguros, S.A. (Member)
Portugal Telecom, S.G.P.S., 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 Espirito Santo, S.A. under the terms of Article 390 (4) of the CC)

Pedro Mosqueira do Amaral

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)
Espírito Santo International 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)
Entrajuda (IPSS) (Member of the Higher Council)
Instituto de Negociação e Vendas (Member of the Advisory Board)

João de Faria Rodrigues

Corporate positions held in companies outside BES Group

Fiscal Board
Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)
T-Vida, Companhia de Seguros, S.A. (Member)
Seguros LOGO, S.A. (Member)

José de Albuquerque Epifânio da Franca

Corporate positions held in companies outside BES Group

Board of Directors
Auxineon Pte Ltd (Singapore) (Member)
QUIIQ, Lda (Member)

Other Positions
Agrupamento TICE (Tecnologias de Informação, Comunicações e Electrónica) (Member of the Advisory Board)
Beta –i (Associação para a Promoção do Empreendedorismo e Inovação) (Member of the Advisory Board)
Instituto Superior de Gestão (Member of the General Council)
Starchip SAS (France) (Member of the Strategy Committee)

Antônio Bornia

Corporate positions held in companies outside BES Group

Board of Directors
Management Body
Banco BERJ S.A. (Vice-Chairman)
Banco Bradesco S.A. (Vice – Chairman)
Banco Bradesco Europa S.A. (Chairman)
BBD Participações S.A. (Vice-Chairman)
Bradesco Leasing S.A. – Arrendamento Mercantil (Vice – Chairman)
Bradesco Securities, Inc. (Chairman)
Bradesco Securities Hong Kong Limited (Chairman)
Bradesco Securities UK Limited (Chairman)
Bradespar S.A. (Vice – Chairman)
BSP Empreendimentos Imobiliários 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. (Vice-Chairman)
Cidade de Deus – Companhia Comercial de Participações (Vice – Chairman)
Fundação Bradesco (Vice – Chairman)
Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (Vice – Chairman)
NCF Participações S.A. (Vice – Chairman)
Nova Cidade de Deus Participações S.A. (Vice – Chairman)
Top Clube Bradesco, Segurança, Educação e Assistência Social (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 Bank Polska (Chairman of the Supervisory Board)
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)
IUB Holding (Chairman)
LCL – Actions Monde (Member)

Other Positions

Crédit Agricole, S.A. (Member of the Executive Committee & Head of International Retail and Commercial Banking)

Michel Jacques Mathieu

Corporate positions held in companies outside BES Group

Board of Directors

Amundi Group (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
CA Assurances (Member)
Caceis (Member)
CACI (Member)
Cape (Chairman of the Supervisory Board)
Cariparma e Piacenza S.P.A. (Member)
LCL - Le Crédit Lyonnais (Member)
Lesica (Chairman)
Pacifica (Member and permanent representative of Crédit Agricole, S.A.)
Predica (Vice-Chairman)
Silca (Member of the Supervisory Board)

Other Positions

Crédit Agricole, S.A. (Member of the General Management Committee, Member of the Executive Committee)
Crédit Agricole, S.A. (Managing Director in charge of Finance, Human Resources, Legal and Compliance, IT, Strategy, and Economic Surveys, with further responsibilities in the areas of Insurance, Asset Management, Real Estate Management and Private Equity (CAPE).
Fédération Nationale du Crédit Agricole (Member of the Senior Officers Mixed Committee)

Vincent Claude Paul Pacaud

A. Corporate positions held in companies of BES Group

Board of Directors

ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

BES – Vida, Companhia de Seguros, S.A. (CEO)
BES – Companhia de Seguros, S.A. (CEO)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)

II.30. Remuneration Policy

Note: The remuneration policy of BES's corporate bodies in force in 2011 followed the remuneration policy approved by the Annual General Meeting of April 6th, 2010.

The proposal to be submitted by the Remuneration Committee to the General Meeting of March 22nd, 2012 is based on the assumptions of the remuneration policy approved in 2010, while already incorporating the new rules on the remuneration policy of financial institutions introduced by Decree-Law no. 88/2011, of July 20th, and Bank of Portugal Notice no. 10/2011. These are the main changes:

a) introduction of non financial criteria in the performance assessment of the executive members of the Board of Directors, which in addition to individual performance also take into account the real growth of the institution and the actual wealth generated for the shareholders, the protection of the interests of clients and investors, its long-term sustainability and the extension of the risks assumed, as well as compliance with the rules applicable to the institution's activity;

b) introduction of a rule whereby 50% at least of any variable remuneration, whether or not deferred, shall be paid in BES shares or equivalent financial instruments;

c) introduction of a rule to the effect that the members of the Executive Committee shall hold, until the end of their term of office, up to a minimum of twice the value of the total annual remuneration, the shares that were acquired by virtue of the payment of the variable remuneration, with the exception of those shares that must be sold for the payment of taxes on the gains of said shares.

Although the remuneration policy described in this report is that which was in force in 2011, the proposed remuneration policy for 2012 which will be submitted to the 2012 General Meeting is included as an attachment to this report.

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 March 31st, 2011:

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;

b) the actual amount of the variable remuneration 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 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 the other non executive members of the Board of Directors.

The full text of the remuneration policy proposal, as approved by the General Meeting of March 31st, 2011, is available at www.bes.pt/ir.

II.31. Individual Remuneration Paid to the Members of the Management and Supervisory Bodies

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 25 members, of whom 9 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 2011 is set out in the table below:

i. Members of the Corporate Bodies (except members of the Executive Committee)

Remunerations 2011 (EUR thousand)

	BES			Total BES
	Fixed		Change	
	Salary	Subsidies and other		
Aundit Committee				
José Manuel Ruivo da Pena	246			246
Luis Daun e Lorena	246			246
João Faria Rodrigues	246			246
Total Audit Committee	**739**	**0**	**0**	**739**
Other non executive Board Members				
Alberto Alves de Oliveira Pinto	185			185
Aníbal da Costa Reis de Oliveira	0	7		7
Manuel Fernando Moniz Galvão Espírito Santo Silva	0	19		19
Nuno Maria Monteiro Godinho de Matos	42			42
Ricardo Abecassis Espírito Santo Silva	0	19		19
Pedro Mosqueira do Amaral	134	22		157
José de Albuquerque Epifânio da Franca	42			42
Isabel Maria Osório de Antas Mégre de Sousa Coutinho	42			42
Michel Joseph Goutorbe	0	4		4
Michel Jacques Mathieu	0	4		4
Vincent Claude Paul Pacaud	0	11		11
Total Other non executive Board Members	**446**	**86**	**0**	**532**
Board of the General Meeting				
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	**40**	**0**	**0**	**40**
Remuneration Committee				
Daniel Proença de Carvalho	18			18
Rita Maria Lagos do Amaral Cabral	18			18
Joaquim Jesus Taveira Santos	18			18
Total Remuneration Committee	**54**	**0**	**0**	**54**
Total Corporate Bodies (excluding executive members)	**1 278**	**86**	**0**	**1 364**

ii. Members of the Executive Committee

1. he amounts paid in 2011 to the members of the Executive Committee include payments relating to two different financial years: the variable component concerns the distribution of 2010 profits, while the fixed component relates to 2011.

2. In 2011 the total remuneration paid to the executive members of the Board of Directors was reduced by 35% compared to that paid in 2010.

3. shown in the table below, the total remuneration that will be paid in 2012 to the members of the Executive Committee will be reduced by 47% compared to the remuneration paid in 2011.

Remunerations 2011 vs. 2012

(EUR thousand)

	2011			Total BES	2012			Total BES	"Change 2010/2011"
	Fixed				Fixed				
	Salary	Subsidies and other	Chg.		Salary	Subsidies and other	Chg.		
Ricardo Espírito Santo Silva Salgado	546	2	253	801	546	2	0	548	-32%
José Manuel Pinheiro Espírito Santo Silva	461	2	212	674	461	2	0	463	-31%
António José Baptista do Souto	457	2	212	671	457	2	0	459	-32%
Jorge Alberto Carvalho Martins [1]	454	99	212	765	454	2	0	456	-40%
José Maria Espírito Santo Silva Ricciardi	0	0	0	0	0	0	0	0	-
Jean-Luc Louis Marie Guinoiseau [2]	438	57	318	813	0	0	44	44	-95%
Rui Manuel Duarte Sousa da Silveira	454	2	212	668	454	2	0	456	-32%
Joaquim Aníbal Brito Freixial de Goes	454	2	212	668	454	2	0	456	-32%
Pedro José de Sousa Fernandes Homem [2]	452	1	318	772	0	32	44	76	-90%
Amílcar Carlos Ferreira de Morais Pires [1]	454	67	212	733	454	2	0	456	-38%
João Eduardo Moura da Silva Freixa	452	2	212	666	452	2	0	454	-32%
Total Comissão Executiva	**4 621**	**237**	**2,372**	**7,230**	**3,731**	**48**	**88**	**3,868**	**-47%**

(1) Includes seniority bonuses
(2) Includes adjustment payments and the total amount of the 2012 variable remuneration that had been deferred until 2014

Remunerations 2011

(EUR thousand)

	Fixed			Total Other
	Salary	Subsidies and other	Chg.	
Ricardo Espírito Santo Silva Salgado				0
José Manuel Pinheiro Espírito Santo Silva				0
António José Baptista do Souto				0
Jorge Alberto Carvalho Martins				0
José Maria Espírito Santo Silva Ricciardi	451	64	212	727
Jean-Luc Louis Marie Guinoiseau				0
Rui Manuel Duarte Sousa da Silveira				0
Joaquim Aníbal Brito Freixial de Goes				0
Pedro José de Sousa Fernandes Homem				0
Amílcar Carlos Ferreira de Morais Pires				0
João Eduardo Moura da Silva Freixa		3		3
Total Executive Committee	**451**	**67**	**212**	**730**

Concerning the variable remuneration approved in 2011 for the members of the Executive Committee, the Remuneration Committee decided in that same year to defer the payment of 50% of the variable part of the Total Annual Remuneration (the Deferred Annual Variable Remuneration), attributing the 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 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:

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**

Considering the deterioration in the economic and financial situation, as referred above, occurred in 2012 in a context of financial crisis in the Euro Zone and severe restrictions to funding sources, with the national crisis and the strict and demanding deleveraging programme imposed by the Troika leading to a sharp reduction of activity, there will be no payment of the instalments foreseen for 2012 (Chairman of the Executive Committee: EUR 42 thousand in cash and EUR 42 thousand in shares at the market price at the time of attribution; other members of the Executive Committee: EUR 35 thousand in cash and EUR 35 thousand in shares at the market price at the time of attribution), and the deferred instalments shall be suspended for as long as said structural deterioration persists.

II.32. Information on the Manner in which the Remuneration is Structured

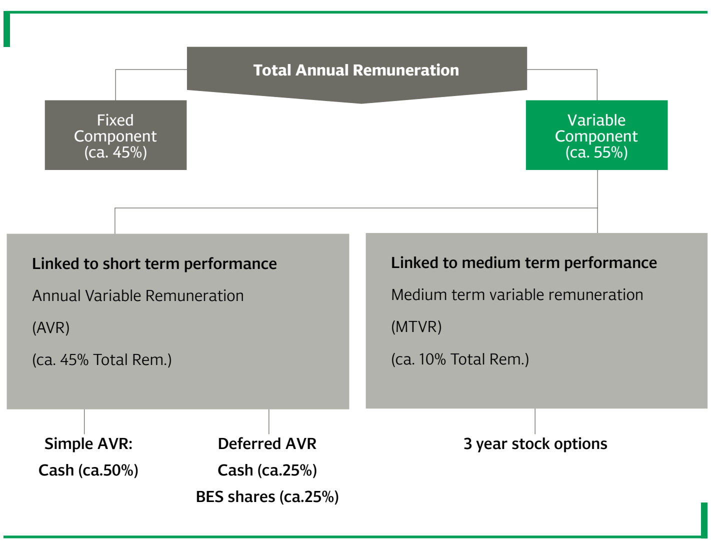
The remuneration of the non executive members of the Board of Directors only comprises a fixed component.

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 component, and as appropriate, 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 March 2011 determined that the variable component established for 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 executive director.

The options can only be exercised at maturity, definitively expiring when not exercised on that date.

The Deferred Annual Variable Remuneration (DAVR) 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.

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 directors;

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 that ended 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;

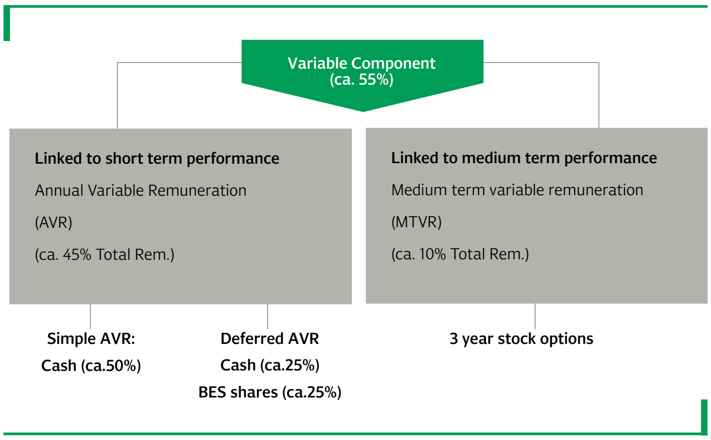
The variable component of the remuneration of the executive Board members is paid in the form of a share in the profits of the Company, which, as referred in point II.32, cannot exceed 2% of BES's consolidated net income for the financial year. In 2011 the executive Board members received a 0.5% share of BES's consolidated net income in 2010, corresponding to EUR 2,584,000.

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 (DAVR) 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 after 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 2011 to members of BES's Board of Directors by other companies of BES Group was EUR 730.000.

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 Espirito 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 twelve 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 November 11th, 2011.

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

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

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) Universal nature: all BES employees are subject to the obligation to inform.

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

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

The Executive Committee held 81 meetings and the Audit Committee 11 meetings. The Corporate Governance Committee held 5 meetings. Minutes were drawn up of all these meetings.

II.38. Remuneration Committee

BES's Remuneration Committee, 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 BES's Fiscal Board 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

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 was taken as the basis for the proposals on BES's remuneration policies submitted by the Remuneration Committee to the 2010 and 2011 Annual General Meetings.

Said consultancy firm provides additional services to BES in the area of human resources.

III. Information and Auditing

III.1. Equity Structure

BES has share capital of EUR 4,030,232,150.40, represented by a total of 1,461,240,084 ordinary, book-entry, registered shares with no par value. BES shares are listed on the NYSE Euronext Lisbon.

BES 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) Since the Extraordinary General Meeting of June 9th, 2011, which approved a partial amendment of the articles of association, the Board of Directors is authorised, upon favourable opinion of the Audit Committee, to increase the share capital through cash contributions, one or more times, through the issuance of ordinary shares or preferential shares, redeemable or non-redeemable, under the terms and conditions to be defined. The maximum amount authorized, in addition to the share capital amount, is of EUR 7,500,000,000.00, this authorisation being valid for a period of five years.

BES Group also has 215,621 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

Qualified Stakes	31 December 2011	
	N Shares	**% Voting Rights**
ESPIRITO SANTO FINANCIAL GROUP, S.A (Luxembourg)		
- directly	33,192,388	2.27%
- through BESPAR, SGPS, S.A (controlled by Espirito Santo Financial (Portugal), SGPS, S.A., fully owned by Espirito Santo Financial Group S.A)	511,434,029	35.00%
- through members of its Board of Directors and Supervisory Bodies	3,655,298	0.25%
- through companies controlled directly and indirectly and/or members of its Board of Directors and Supervisory Bodies	8,166,666	0.56%
Total attributable	**556,448,381**	**38.08%**
CRÉDIT AGRICOLE, S.A (France)		
- directly	126,076,650	8.63%
- through BES Vida - Companhia de Seguros	25,005,812	1.71%
Total attributable	**126,076,650**	**10.34%**
BRADPORT, SGPS, S.A*		
- directly	70,583,333	4.83%
Total attributable	**70,583,333**	**4.83%**
SILCHESTER INTERNATIONAL INVESTORS LIMITED (UK)		
- directly	82,852,227	5.67%
Total attributable	**82,852,227**	**5.67%**
PORTUGAL TELECOM, SGPS, S.A		
- through PT Prestações - Mandatária de aquisições e gestão de bens, S.A.	30,585,108	2.09%
- through members of its Board of Directors and Supervisory Bodies	129,056	0.01%
Total Imputável	**30,714,164**	**2.10%**
ESPIRITO SANTO ACTIVOS FINANCEIROS, SGPS, S.A.		
- ugh ES Premium Fund	32,873,372	2.25%
Total attributable	**32,873,372**	**2.25%**

*Portuguese company fully owned by Banco Bradesco (Brasil)

III.3. Shareholders with Special Rights

No shareholders detain special rights.

III.4. Transferability of Shares

There are no restrictions to the transfer of shares.

III.5. Shareholder Agreements

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.

As a rule, any amendment of BES's bylaws, namely concerning resolutions on changes to the share capital, must be submitted to the General Meeting, for approval.

However, the Extraordinary General Meeting of June 9th, 2011 approved a partial amendment to the company's articles of association to the effect of authorising the Board of Directors to, upon favourable opinion of the Audit Committee, increase the share capital through cash contributions, one or more times, through the issuance of ordinary shares or preferential shares, redeemable or non-redeemable, under the terms and conditions to be defined. The maximum amount authorized, in addition to the share capital amount, is of EUR 7,500,000,000.00, this authorisation being valid for a period of five years.

Resolutions concerning changes in the articles of association 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

No such control mechanisms exist.

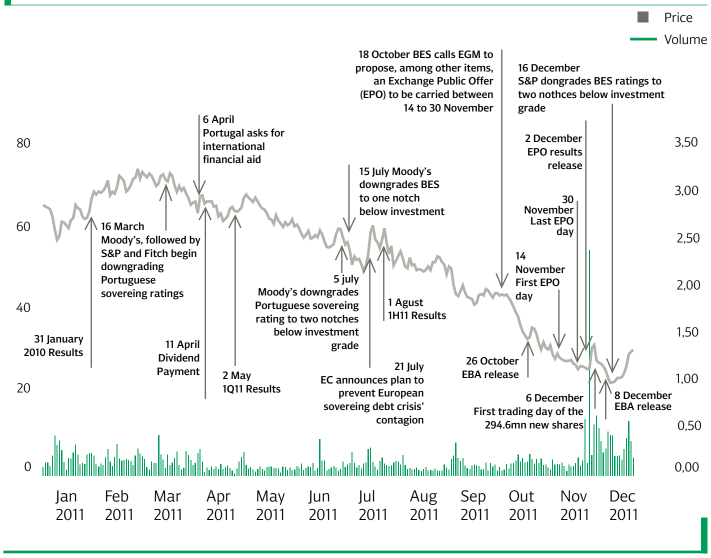
III.8. Evolution of BES's Share Price

The sovereign debt crisis and its ramifications were the key factor in market's negative performance in 2011, mainly affecting the European banking sector, which underperformed general markets. The Portuguese banking sector was no exception, especially after Portugal's request for international financial assistance. At the end of 2011 BES shares were outperforming the Portuguese banking sector. On December 30th, 2011 BES was the largest Portuguese listed bank, with a market cap of EUR 1,973 million (close price at December 30th, 2011: EUR 1.35).

The agreement entered with the European Union, the European Central Bank and the International Monetary Fund concerning the programme of financial assistance granted to Portugal established a set of economic adjustment measures that also included the adjustment of the national banking sector. In this context, and specifically in what concerns the banking sector's solvency levels, the Bank of Portugal, in agreement with the European Union, the European Central Bank and the International Monetary Fund require that Portuguese banks have a minimum Core Tier I ratio of 9% in December 2011 and 10% in December 2012.

To meet these requirements, namely a Core Tier I ratio of 9% in December 2011, BES carried out a capital increase in the form of an exchange offer of shares for bonds totalling EUR 619 million, which took place from November 14th to 30th. After conclusion of this operation, on December 6th, 2011, 249.6 million new shares were issued and listed, increasing BES's share capital to EUR 4,030,232,150.40, represented by 1,461,240,084 shares with no par value.

BES share price and trading volume in 2011



III.9. Dividend Policy

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, for approval, a proposal to include the net loss determined for the 2011 financial year (individual accounts), in the amount of EUR 133,089,418.85, under the balance sheet item "Other Reserves and Retained Earnings".

	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%
2011	NA	1,461,240,084	NA	NA	NA

* 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

As referred in point I.17 (see also II.32 and 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. These plans were implemented for the first time in 2011, only applying to the members of the Executive Committee.

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

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

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

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

In 2011 the Audit Committee issued preliminary opinions on three loans totalling EUR 6.55 million, in the average amount of EUR 2.18 million each, the maximum amount being EUR 5 million. These loans were granted to a non executive member of the Board of Directors and to companies fully owned, directly or indirectly, by this director and members of his family.

III.15. Audit Committee Activity Report

The annual report on the activity carried out by the Audit Committee is available at www.bes.pt/ir.

III.16. Investor Relations

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 • Portugal

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 («EA/SA»)

The table below lists the services provided to BES Group by the EA/SA and the remuneration paid for these services:

(Amounts in Euro)

	2011	%	2010	%
Audit and legal review of the accounts services	2,603,884	46	2,303,896	41
Other reliability assurance services related to the statutory auditing function	1,543,934	27	1,567,367	28
1. Total Audit services	**4,147,818**	**73**	**3,871,263**	**69**
Tax consulting services	590,558	10	644,813	12
Other, non audit services	949,294	17	1,067,122	19
2. Total other services	**1,539,852**	**27**	**1,711,935**	**31**
	5,687,670	**100**	**5,583,198**	**100**

In the table above, 'Other reliability assurance services' refer exclusively to the function performed by KPMG as the 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 73% of the total fees paid in 2011 to KPMG and related entities by BES Group in Portugal and in other countries. The other 27% concern tax consultancy services (10%) and other non audit services (17%), the latter mainly relating to technical support provided within the scope of the Basel II and Solvency II projects, other regulatory issues, 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 not only the nature of the services to be provided but also 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 2011 the value of non-audit services did not exceed the formal limit of 30% of the total value of services provided to the company. BES 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. In addition, the Audit Committee maintains a permanent monitoring of the relative value of KPMG's fees for non-audit services, which is regularly validated by KPMG, in order to guarantee that the annual limit of 30% recommended by the CMVM, as referred above, is not surpassed.

b. At the level of BES Group's Statutory Auditor/External Auditor («EA/SA»)

KPMG, BES Group's EA/SA, 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.

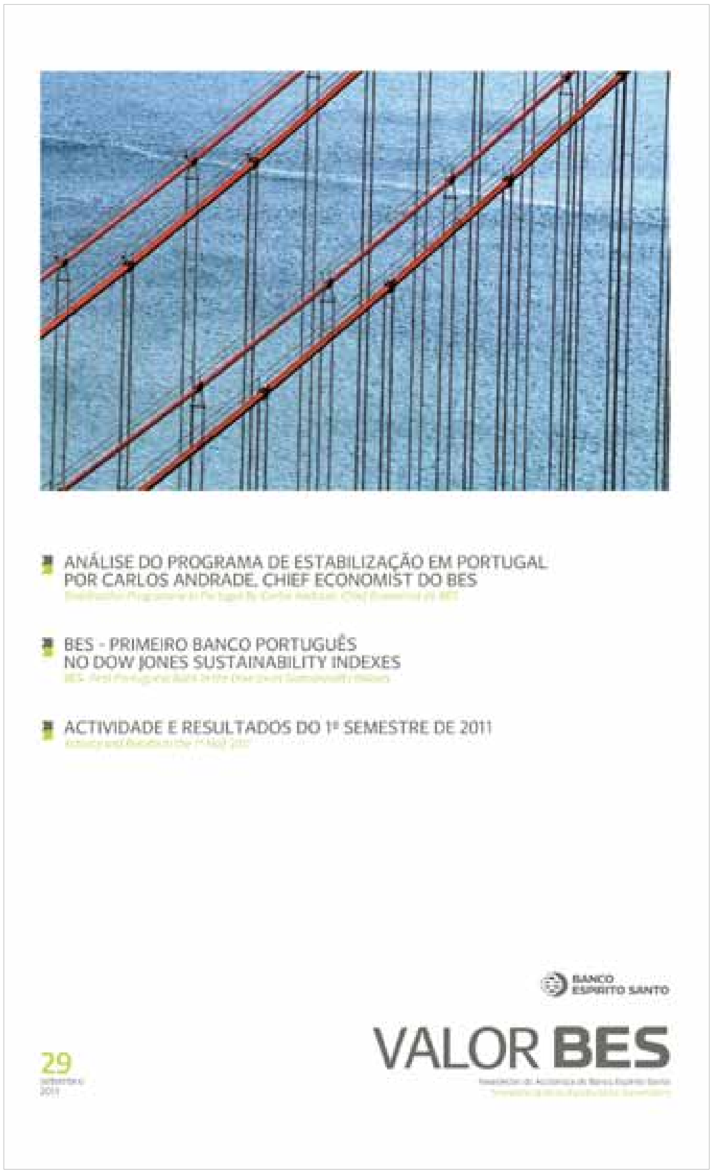
In addition, the international network to which KPMG belongs has implemented an intranet service (called "Sentinel") under which no service can be provided by any entity of that network to any client with listed securities without the previous authorisation of the Global Lead Partner responsible for 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 nature of 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/or 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

The external auditor concluded its four-year mandate in 2011. The Audit Committee will propose to the 2012 Annual General Meeting, on the basis on an opinion duly substantiated in light of CMVM Recommendation II.1.3., that KPMG & Associados, SROC, SA remain in office for their third 4-year mandate (2012/2015).



Appendix I: Share and Bond Holdings of the Members of the Corporate Bodies and Senior Officers as of December 31st, 2011 and List of All Transactions Carried Out by them

Share holdings of the Members of the Corporate Bodies

Shareholder	Shares	Nº of shares as of 31/12/2010	Transactions in 2011				Nº of shares as of 31/12/2011
			Date	Acquisitions	Disposals	Unit price (EUR)	
Ricardo Espírito Santo Silva Salgado	BES shares	1,384,333					1,384,333
José Manuel Pinheiro Espírito Santo Silva	BES shares	357,008	12/04/11	10,000		2.93	367,008
António José Baptista do Souto	BES shares	38,575					38,575
Jorge Alberto Carvalho Martins	BES shares	132,385	15/09/11		30,000	2.00	
			29/09/11		9,096	2.00	
			30/09/11		40,904	2.00	52,385
Aníbal da Costa Reis de Oliveira	BES shares	810,000	05/12/11	199,999		1.80	
			06/12/11	1		1.30	1,010,000
Manuel Fernando Moniz Galvão Espírito Santo Silva	BES shares	2,484			2,484		
José Maria Espírito Santo S. Ricciardi	BES shares	21,789			21,789		
Jean-Luc Louis Marie Guinoiseau	BES shares	110,363	25/02/11		33,455	3.20	
			15/06/11		76,908	2.50	0
Rui Manuel Duarte Sousa da Silveira	BES shares	2,315					2,315
Joaquim Aníbal Brito Freixial de Goes	BES shares	88,805					88,805
Ricardo Abecassis Espírito Santo Silva	BES shares	50,000					50,000
Amílcar Carlos Ferreira de Morais Pires	BES shares	40,251			40,251		
			13/10/11	25*		1.90	40,276
João Eduardo Moura Silva Freixa	BES shares	30,000					30,000
Pedro Mosqueira do Amaral	BES shares	0	02/08/11	70,000		2.62	70,000

* shares attributed for 25 years in BES

Bond holdings of the Members of the Corporate Bodies

Bondholder	Securities	Nº of securities as of 31/12/2010	Transactions 2011				Nº of securities as of 31/12/2011
			Date	Acquisitions	Disposals	Unit price (EUR)	
Alberto Alves de Oliveira Pinto	BES Finance (XS0485879414)	0	11/04/11	151,000		70.00%	
			26/10/11		151,000.00	70.1397%	0
	BES Finance (XS0466899688)	0	13/04/11	150,000		70.0050%	150,000
	BES Finance (XS0485879414)	0	20/05/11	141,000		70.0050%	141,000
	BES Finance 08/11 (XS0515816956)	0	08/08/11	35,000		70.0050%	35,000
	BES Finance 10/11 (XS0550967169)	0	26/10/11	152,000		70,0016%	152,000
José Manuel Espírito Santo Silva	BES 5,625% DUE Junho 2014	200,000					200,000
	ObrigaçõesBES Finance (XS0497310606)	0	29/04/11	284,000		70.0083%	284,000
			27/07/11		284,000	70.0807%	0
António José Baptista do Souto	BES 3,75% 19-01-2012	50,000					50,000
	BES 5,625% DUE Junho 2014	50,000					50,000
	BES Finance (XS0442126925)	282,000					282,000
	BES Finance 08/11 (XS0466899688)	0	26/08/11	208,000		70.0066%	208,000
	BES Finance (XS0550967169)	142,000	27/07/11		142,000	70.2092%	0
	BES Finance (XS0493522048)	206,000	26/08/11		206,000	70.2563%	0
Jorge Alberto Carvalho Martins	BES 2009/ 05-06-2014	250,000					250,000
Aníbal da Costa Reis de Oliveira	BESI 8,5%	116,000	05/12/11		116,000	100%	0
	BES Finance 02/07/2014	400,000	05/12/11		400,000	61%	0
	BES DUE 2012	0	26/09/11	250,000		96.25%	250,000
	BES 5,625% DUE Junho 2014	400,000					400,000
	BES Finance 07/02/2035	200,000					200,000
Rui Manuel Duarte Sousa da Silveira	BES Finance (XS0505467729)	138,000	27/07/11			70.1172%	0
	BES Finance (XS0500975957)	0	27/07/11	240,000		70.0000%	240,000
			26/10/11		240,000	70.1915%	0
Joaquim Aníbal B. Freixial de Goes	BES 3,75% 19-01-2012	0	03/10/11	200,000		99.0000%	200,000
			10/10/11		150,000	99.0000%	50,000
	BES 5,625% DUE Junho 2014	0	03/01/11	1			1
	BES Finance (XS0493522048)	261,000	26/08/11		261,000	70.2563%	0
Amílcar Carlos Ferreira de Morais Pires	BES DUE 3,875% 2015	250,000					250,000
	BES DUE 5,625% Junho 2014	250,000					250,000
José Manuel Ruivo da Pena	BES Finance 2035	60,000					60,000
	BES Finance 6,25%	50,000	17/05/11		50,000	100%	0
	BES Finance	358,000	25/02/11		358,000	25.4343%	0
	BES DUE 2012	0	02/09/11	50,000		96.3000%	50,000
	BES DUE 2013	0	02/09/11	50,000		83.6000%	50,000
	BES Finance (XS0544432007)	0	25/02/11	98,000		70.0016%	98,000
	BES Finance (XS0466899688)	0	25/08/11	70,000		70.0050%	700,000
			26/08/11		70,000	70.2123%	0
	BESFinance (XS0515816956)	0	20/05/11	116,000		70.0050%	116,000
			26/08/11		116,000	70.1546%	0
João Eduardo Moura Silva Freixa	BES DUE 2012	0	12/12/11	400,000		98.4000%	400,000

Share Holding of Senior Officers

	Shares	Shares held as of 31/12/2010	Transactions 2011				Shares held as of 31/12/2011
			Date	Acquisitions	Disposals	Unit price (EUR)	
António Manuel Marques	BES Shares	2,240	05/01/11	2 069		2.87	
			05/12/11	2,777*		1.80	7,086
António Miguel Natário Rio-Tinto	BES Shares	4,892					4,892
Bernardo Leite Faria Espirito Santo	BES Shares	0	05/12/11	2,777*		1.80	2,777
Carlos Manuel Garcia Calvário	BES Shares	26,277	09/11/11		26 277	1.31	0
Eugénio Fernando Quintais Lopes	BES Shares	8,763					8,763
Isabel Almeida Bernardino	BES Shares	13,931	05/12/11	28,805*		1.80	42,736
João Filipe Martins Pereira	BES Shares	16,446					16,446
João Maria Mello Franco	BES Shares	25,272	05/12/11	4,444*		1.80	29,716
Jorge Daniel Lopes da Silva	BES Shares	13,245					13,245
José Alexandre Pinto Ribeiro	BES Shares	17,000					17,000
Luis Filipe Magalhães Palma Rodeia	BES Shares	2,678	05/12/11	2,777*		1.80	5,455
Manuel José Dias de Freitas	BES Shares	13,370	05/12/11	20,000*		1.80	33,370
Paulo António Gonçalves Padrão	BES Shares	4,554					4,554
Rui Manuel Fernandes Pires Guerra	BES Shares	21,255	05/12/11	5,555*		1.80	26,810

* Aquisição feita no âmbito da OPT

List of all transactions carried out in the 2nd Half of 2011

	Date	Transaction	Deal nº	Nº of shares	Price
Aníbal da Costa Reis de Oliveira	06/12/11	acquisition	1075	1	1,302
Jorge Alberto Carvalho Martins	15/09/11	disposal	685	2,000	2
			686	651	2
			687	2,282	2
			688	3,327	2
			689	3,813	2
			690	2,210	2
			691	2,500	2
			694	2,000	2
			704	2,000	2
			705	9,217	2
	29/09/11	disposal	704	4,096	2
			705	5,000	2
	30/09/11	disposal	93	10,000	2
			94	9,400	2
			95	21,504	2
Carlos Manuel Garcia Calvário	09/11/11	disposal	603	312	1,312
			604	1,674	1,311
			605	1,510	1,311
			606	1,389	1,311
			607	458	1,311
			608	200	1.31
			609	1,000	1.31
			617	7,231	1.31
			618	500	1.31
			621	1,065	1.31
			690	10,938	1.31

Appendix II: Remuneration Policy of the Corporate Bodies of Banco Espírito Santo, S.A.

1. Procedure for the approval 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.

c) Composition of the Remuneration Committee

Rita Maria Lagos do Amaral Cabral

A practicing lawyer, Rita Maria Lagos do Amaral Cabral was a founder and is the Director of Sociedade Amaral Cabral & Associados, a law firm; she is invited assistant professor at the Law School of the Portuguese Catholic University, member of the National Ethics Council for the Life Sciences and a non-executive director of Cimigest, SGPS, S.A. and Semapa – Sociedade de Investimento e Gestão, SGPS, S.A.

Daniel Proença de Carvalho

A practising lawyer, Daniel Proença de Carvalho was Chairman of the Strategic Board of Hospital Amadora-Sintra Sociedade Gestora, S.A. from 2007 to 2008, and is currently Chairman of the Board of Directors of ZON Multimédia, Chairman of the Advisory Board of Explorer Investments - Sociedade de Capital de Risco, a venture capital firm, member of the Board of Directors or SINDCOM - Sociedade de Investimentos na Indústria e Comércio and Chairman of the Board of Curators of the D. Anna de Sommer Champalimaud e Dr. Carlos Montez Champalimaud Foundation since 2005.

Jacques dos Santos

Partner and 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.

Nenhum dos membros da Comissão de Vencimentos do BES é membro do órgão de administração, ou tem qualquer vínculo familiar com algum dos seus membros.

None of the members of BES's Remuneration Committee is a member of the Board of Directors or has any family connection with any of its members.

A representative of the Remuneration Committee is present in every General Shareholders' Meeting.

d) External Consultants

The external consultant chosen to assist the Remuneration Committee in the definition of the remuneration policy of BES's Corporate Bodies was Mercer Ltd.

This 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.

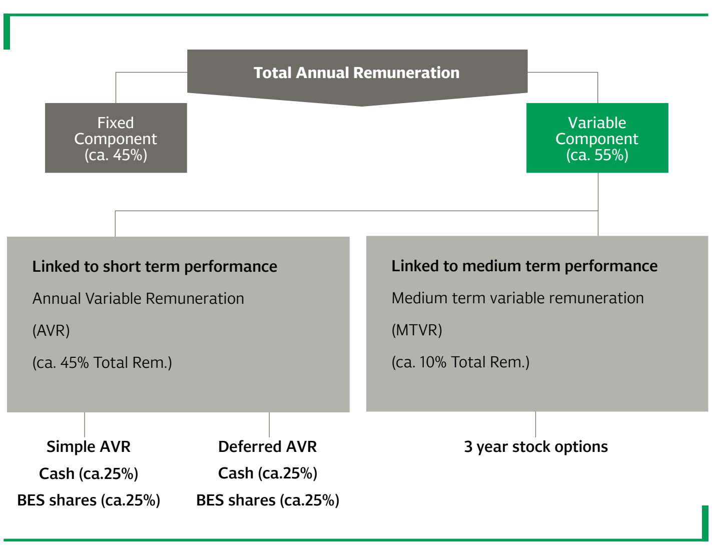
The variable component established for 2012 is subject to an upper limit corresponding to 1.4% of the consolidated earnings of BES Group.

d) Balanced remuneration

The fixed component shall represent at least approximately 45% of the total remuneration, the remaining 55% being attributed as a variable component, providing the requirements for such attribution are met.

Providing that the net results for the year are positive, the exact amount of the variable component will vary 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 following factors:

- 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);
- Performance assessed by non financial criteria, including the individual performance of each member of the Executive Committee (each Executive Committee member has several established areas of responsibility, namely over departments whose performance is measured objectively and quantitatively), the evolution of indicators linked to the sustainability of the Bank's growth (such as the loan to deposits ratio, the Core Tier 1 ratio, the main service quality indicators, as well as compliance with the main rules applying to the institution's activity).

The amount of the AVR will be determined according to the assessment made of the evolution of the aforementioned factors.

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 corresponded to 1.4% of the year's net income).

The AVR is divided into an immediate portion («**Immediate AVR**»), which is paid after the accounts for the year in question have been approved, and another portion that is deferred for a period of three years (the **Deferred Annual Variable Remuneration («Deferred AVR»)**).

The Immediate AVR and the Deferred AVR are both divided into two equal parts (one in cash and another in kind, the latter consisting of BES shares),

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 at least three years after their date of attribution, thus implying the accrual of their cost until such time as 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 the period of its attribution, 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 exercise 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.

f) Mechanisms of Limitation of the Variable Remuneration

The Deferred Annual Variable Remuneration («DAVR») 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 will no longer be due in the case of a structural deterioration of BES's performance. 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 period in question.

g) Criteria for performance assessment

The assessment of the performance of the executive directors will be based on the following financial and non financial criteria:

- **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 amount of net income generated as a percentage of the funds invested by the shareholders;
- **Stock market capitalisation** – an unequivocal indication of the market's assessment of BES's performance, it reflects the wealth effectively created for the shareholders. This indicator permits to align the shareholders' perspective to the markets' perspective;
- **Individual performance** of each member of the Executive Committee - this permits to identify the relative contribution of each executive director to BES's overall results; it is objectively assessed through the analysis of the performance of the functions and departments under their responsibility, as well as from their individual contribution to decisions taken collectively;
- **Loan to Deposits Ratio** - this ratio gauges the level of balance of BES's growth trajectory, permitting to assess whether this growth enables compliance with the regulatory requirements concerning the deleveraging of the financial sector;
- **Core Tier 1 Ratio** - the main indicator used to measure solvency from the regulatory standpoint (based on references established both by the Bank of Portugal and the European Banking Authority – EBA);
- **Service Quality Indicators** - these indicators permit to factor in the opinion of BES's client base about the level of protection of their interests;
- **Compliance with the main rules applying to the institution's activity** - this is assessed by the Internal Control functions to identify any lack of conformity in the areas of risk, internal audit and compliance and the measures implemented to remedy such inadequacies, which are reported to the Bank of Portugal.

h) Criteria concerning the retention by the executive directors of shares allocated 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. This payment in kind is deferred for a period of three years.

The members of the Executive Committee are also attributed stock options, which can only be exercised after a period of at least three years.

Up to the end of their term of office, the members of the Executive Committee shall hold, up to a minimum of twice the value of the total annual remuneration, the shares that were acquired by virtue of the payment of the variable remuneration, with the exception of those shares that must be sold for the payment of taxes on the gains of said shares.

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 act of awarding such bonuses and/or share in profits

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

l) Compensation paid or owed to former executive directors in relation to early contract termination

No compensation has been paid or is owed to former members of the Executive Committee in relation to early contract terminations.

m) Contractual limitations on compensation due for directors' dismissal without due 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 twelve 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 November 11th, 2011.

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

here 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 2011 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)

Remunerations 2011 (EUR thousand)

	BES			Total BES
	Fixed			
	Salary	Subsidies and other	Change	
Aundit Committee				
José Manuel Ruivo da Pena	246			246
Luis Daun e Lorena	246			246
João Faria Rodrigues	246			246
Total Audit Committee	**739**	**0**	**0**	**739**
Other non executive Board Members				
Alberto Alves de Oliveira Pinto	185			185
Aníbal da Costa Reis de Oliveira	0	7		7
Manuel Fernando Moniz Galvão Espírito Santo Silva	0	19		19
Nuno Maria Monteiro Godinho de Matos	42			42
Ricardo Abecassis Espírito Santo Silva	0	19		19
Pedro Mosqueira do Amaral	134	22		157
José de Albuquerque Epifânio da Franca	42			42
Isabel Maria Osório de Antas Mégre de Sousa Coutinho	42			42
Michel Joseph Goutorbe	0	4		4
Michel Jacques Mathieu	0	4		4
Vincent Claude Paul Pacaud	0	11		11
Total Other non executive Board Members	**446**	**86**	**0**	**532**
Board of the General Meeting				
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	**40**	**0**	**0**	**40**
Remuneration Committee				
Daniel Proença de Carvalho	18			18
Rita Maria Lagos do Amaral Cabral	18			18
Joaquim Jesus Taveira Santos	18			18
Total Remuneration Committee	**54**	**0**	**0**	**54**
Total Corporate Bodies (excluding executive members)	**1 278**	**86**	**0**	**1 364**

ii. Members of the Executive Committee

1. The amounts paid in 2011 to the members of the Executive Committee include payments relating to two different financial years: the variable component concerns the distribution of 2010 profits, while the fixed component relates to 2011.

2. The total remuneration paid to the executive Directors in 2011 was 35% lower than in 2010.

3. As shown in the table below, the total remuneration that will be paid in 2012 to the executive Directors will be reduced by 47% compared to the remuneration paid in 2011.

Remunerations 2011 vs. 2012

(EUR thousand)

	2011			Total BES	2012			Total BES	"Change 2010/2011"
	Fixed				Fixed				
	Salary	Subsidies and other	Var.		Salary	Subsidies and other	Var.		
Ricardo Espírito Santo Silva Salgado	546	2	253	801	546	2	0	548	-32%
José Manuel Pinheiro Espírito Santo Silva	461	2	212	674	461	2	0	463	-31%
António José Baptista do Souto	457	2	212	671	457	2	0	459	-32%
Jorge Alberto Carvalho Martins (1)	454	99	212	765	454	2	0	456	-40%
José Maria Espírito Santo Silva Ricciardi	0	0	0	0	0	0	0	0	-
Jean-Luc Louis Marie Guinoiseau (2)	438	57	318	813	0	0	44	44	-95%
Rui Manuel Duarte Sousa da Silveira	454	2	212	668	454	2	0	456	-32%
Joaquim Aníbal Brito Freixial de Goes	454	2	212	668	454	2	0	456	-32%
Pedro José de Sousa Fernandes Homem (2)	452	1	318	772	0	32	44	76	-90%
Amílcar Carlos Ferreira de Morais Pires (1)	454	67	212	733	454	2	0	456	-38%
João Eduardo Moura da Silva Freixa	452	2	212	666	452	2	0	454	-32%
Total Comissão Executiva	**4 621**	**237**	**2 372**	**7 230**	**3 731**	**48**	**88**	**3 868**	**-47%**

(1) Includes seniority bonuses
(2) Includes adjustment payments and the total amount of the 2012 variable remuneration that had been deferred until 2014

Remunerations 2011

(EUR thousand)

	BES			Total Other
	Fixed			
	Salary	Subsidies and other	Var.	
Ricardo Espírito Santo Silva Salgado				0
José Manuel Pinheiro Espírito Santo Silva				0
António José Baptista do Souto				0
Jorge Alberto Carvalho Martins				0
José Maria Espírito Santo Silva Ricciardi	451	64	212	727
Jean-Luc Louis Marie Guinoiseau				0
Rui Manuel Duarte Sousa da Silveira				0
Joaquim Aníbal Brito Freixial de Goes				0
Pedro José de Sousa Fernandes Homem				0
Amílcar Carlos Ferreira de Morais Pires				0
João Eduardo Moura da Silva Freixa		3		3
Total Executive Committee	**451**	**67**	**212**	**730**

* includes seniority bonus

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**

Concerning the variable remuneration approved in 2011 for the members of the Executive Committee, the Remuneration Committee decided in that same year to defer the payment of 50% of the variable part of the Total Annual Remuneration (the Deferred Annual Variable Remuneration), attributing the 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 the 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:

Considering that a structural deterioration in the economic and financial situation, as referred above, occurred in 2012 in a context of financial crisis in the Euro Zone and severe restrictions to funding sources, with the national crisis and the strict and demanding deleveraging programme imposed by the Troika leading to a sharp reduction of activity, there will be no payment of the instalments foreseen for 2012 (Chairman of the Executive Committee: EUR 42 thousand in cash and EUR 42 thousand in shares at the market price at the time of attribution; other members of the Executive Committee: EUR 35 thousand in cash and EUR 35 thousand in shares at the market price at the time of attribution), and the deferred instalments shall be suspended for as long as said structural deterioration persists.

Lisbon, February 29th, 2012

The Remuneration Committee

Appendix III: Remuneration Policy of the Senior Officers

i. Scope of application and fundamental principles

The present remuneration policy applies not only to the senior officers in a broad sense, which include: (i) General Managers, (ii) Advisors, and iii) Coordinating Managers, regardless of the area in which they carry out their activity, but also to the Management Officers (Managers, Assistant Managers and Deputy Managers) within the strict circle of control functions - Internal Audit, Compliance and Global Risk.

In fact, it is easy to understand that, besides the members of the corporate bodies, in the specific case of BES these officers are those whose performance has a material impact on the Bank's risk profile.

ii. The remuneration policy of BES's senior officers

1. Procedure for the Approval of the Remuneration Policy

a) Approval

The process of approval of the remuneration policy of the employees considered herein starts with a proposal submitted by the Board of Directors. The statement on the remuneration policy of the senior officers is submitted to the General Meeting, for approval, pursuant to Law no. 28/2009, of 19 June. Finally, the exact setting of the remuneration is approved by the Board of Directors.

b) Mandate of the Board of Directors

Under the terms of the law and the Company's bylaws, the setting of the remuneration of BES's senior officers is the responsibility of the Board of Directors, within the scope of their management of the human resources and incentives policies, and aiming 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 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
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
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
Vincent Pacaud
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
António 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.

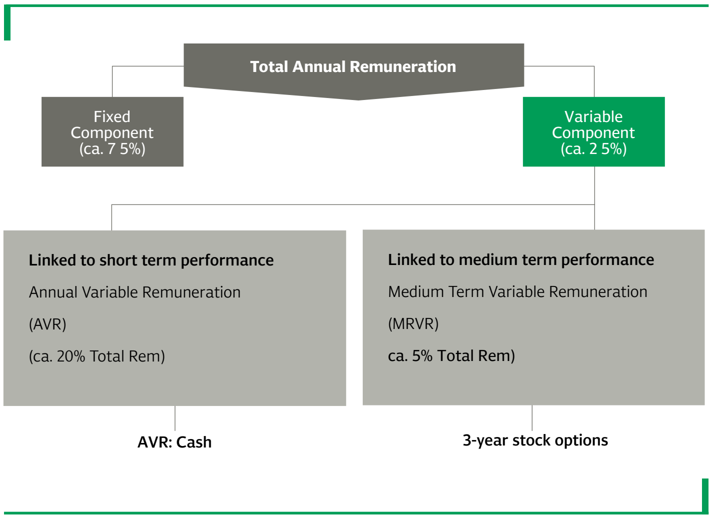
The variable component established for 2012 corresponds to 25% of the average Total Annual Remuneration, although it may reach up to 50% of individual total Remuneration.

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.

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.

A) Short term performance (Annual Variable Remuneration)

The **Annual Variable Remuneration («AVR»)** is linked to **Short Term Performance** and will correspond on average to approximately 20% of the Total Annual Remuneration.

The **AVR** will be set by the Board of Directors at the beginning of each year, and calculated based on the Objectives and Incentives System ("SOI") established for each type of area, in accordance with the level of achievement of the main objectives set by the Board of Directors, based on the following indicators:

- Commercial Areas – Volume indicators, Banking Income, Quality Indicators and Cost to Income;
- Central Areas – Operational Risk, Activity Indicators, Quality Indicators and Cost to Income.

The AVR is paid in cash in the first year after the reference date of results, upon approval of the accounts for the year in question.

B) Medium Term Performance (Medium Term Variable Remuneration)

The **Medium Term Variable Remuneration («MTVR»)** is linked to **Medium Term Performance** and will correspond to approximately 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 at least three years after their date of attribution, thus implying the accrual of their cost until such time as 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 the period of its attribution, 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 exercise 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.
As resolved in 2011, the Board of Directors decided that there would be no Medium Term Variable Remuneration for the senior officers in 2012.

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 the exercise of the options is subject to a deferral period. This remuneration will have no value unless the share price increases by at least 10% over the period in question.

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 clien
- **Cost-to-Income** - (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues setting it against the operating costs incurred;
- **Stock market capitalisation** - an 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 allocated

The stock options granted to the senior officers can only be exercised after a period of at least three years.

The Board of Directors may establish rules on the retention or maintenance of the shares acquired.

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.

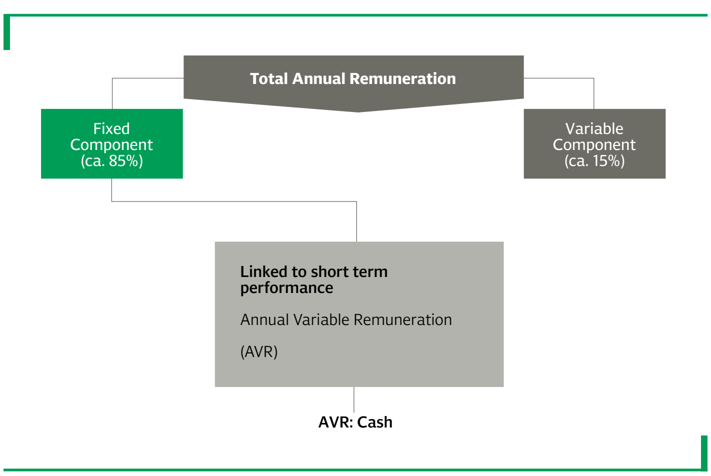
The variable component established for 2012 corresponds to 15% of the average Total Annual Remuneration, although it may reach up to 30% of individual total Remuneration.

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 **Annual Variable Remuneration («AVR»)** is linked to **Short Term Performance** and will correspond on average to approximately 15% of the Total Annual Remuneration.

The **AVR** will be set at the beginning of each year by the Board of Directors, being calculated based on the Objectives and Incentives System ("SOI") established for the department, in accordance with the level of achievement of the main objectives approved by the Board of Directors, determined on the basis of indicators such as Activity, Costs, Risk and Quality.

This objectives matrix also applies to the General Managers, Advisors and Coordinating Managers in control functions.

The AVR is paid in cash on the dividend payment date in the first year after the reference date of results, upon approval of the accounts for the year in question.

e) Performance assessment criteria

The Management officers and the General Managers, Advisors and Coordinating Managers in control functions are assessed based on the four variables listed in point 2 (f), namely Activity, Costs, Risk and Quality.

4. Main Parameters and Rationale for any Annual Bonus Scheme and any other Non Cash Benefits Attributed to the Senior Officers

In addition to the fixed and variable components described in this remuneration policy, senior officers are granted the following benefits:

- Life Insurance, as defined in article 142 of the ACTV for the banking sector (SAMS);
- 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 which does not take into account the full remuneration and/or allowances for fixed working hours exemption. In addition, and considering that all bank employees are since 2011 registered with the Social Security, and that by law all the employees who are members of the pension fund must obligatorily be informed every year 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 monthly contribution of 3% of their basic salary to an individual retirement savings plan ("PPR"). BES contributes with 3% of the basic salary to individual PPRs plus a certain percentage to a Group PPR, the aim being to reach at pensions corresponding to a certain percentage of the salary, as described below.

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 2011 to BES's Senior Officers

(EUR)

	Senior Officers		
	General Managers	**BD Advisors**	**Coordinating Managers**
No. of employees	**2**	**19**	**36**
Total fixed remuneration	333,711	2,928,593	4,457,099
Total variable remuneration	125,947	866,090	1,246,312
Share of variable remuneration	27.4%	22.8%	21.9%

(EUR)

	Management		
	Managers	**Assistant Managers**	**Deputy Managers**
No. of employees	**11**	**8**	**14**
Total fixed remuneration	879,534	496,613	643,825
Total variable remuneration	186,882	77,798	126,796
Share of variable remuneration	17.5%	13.5%	16.5%

Lisbon, February 29th, 2012.

The Board of Directors

BANCO ESPIRITO SANTO

CONSELHO DE ADMINISTRAÇÃO
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 2011

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 2011 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 2011 as required and applicable to **Banco Espírito Santo, S.A.**.

Lisbon, 29 February 2012

The Audit Committee

José Manuel Ruivo da Pena (Chairman)

Luís 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. 77

At ten hours on March twenty second, in the year two thousand and twelve, the Annual General Meeting of the Shareholders of Banco Espírito Santo, S.A. was held at the Hotel Ritz – Salão Nobre, at Rua Castilho, no. 77, in Lisbon, with the following Agenda:

Item One: Appoint the members of the Board of the General Meeting for the 2012 – 2015 term of office.

Item Two: Resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to financial year 2011.

Item Three: Resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to financial year 2011.

Item Four: Resolve on the allocation of earnings.

Item Five: Make a general assessment of BES' management and supervisory bodies.

Item Six: Resolve on the Remuneration Committee and Board of Directors' statements on the remuneration policy of BES' management and supervisory bodies and remaining BES senior officers, respectively.

Item Seven: Approve the amendments to the "Variable Remuneration Plan based on Financial Instruments" applying to BES's executive directors.

Item Eight: Approve the amendments to the "Variable Remuneration Plan based on Financial Instruments" applying to BES's senior officers.

Item Nine: Appoint the members of the corporate bodies for the 2012-2015 term of office, except for the members of the Board of the General Meeting.

Item Ten: Appoint the Statutory ("ROC")/External Auditor and deputy statutory auditor for the 2012-2015 term of office.

Item Eleven: Appoint the members of the Remuneration Committee for the 2012-2015 term of office.

Item Twelve: Resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES's control.

The Board of the General meeting consisted of its elected Chairman, Vice-Chairmen, and Secretary, respectively Paulo de Pitta e Cunha, Fernão de Carvalho Fernandes Thomaz, Nuno Miguel Matos Silva Pires Pombo and Eugénio Fernando de Jesus Quintais Lopes, the latter in the capacity of Company Secretary.

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 statutory auditors, KPMG & Associados SROC, S.A., represented by Ms. Sílvia Cristina de Sá Velho Corrêa da Silva Gomes.

The Chairman of the General Meeting declared the session opened, after ascertaining that there was a quorum of shareholders present or represented owning 1,017,859,145 shares, corresponding to 69.66% of the share capital and to 10,178,553 votes, and that the General Meeting had been regularly called as per notices published on February 27th, 2012, on the Directorate-General of Registry and Notary Services ("DGRN") - Publicações website of the Ministry of Justice, and on February 29th, 2012, on the website of the Portuguese Securities Market Commission ("CMVM"), on BES' website, and also on the Diário de Notícias, Jornal de Notícias, Açoriano Oriental, and Diário de Notícias – Madeira newspapers.

(...)
Going into the Agenda, the Chairman of the General Meeting asked the meeting to analyse Item One of the Agenda: "Appoint the members of the Board of the General Meeting for the 2012 – 2015 term of office", namely the proposal submitted on this item by BESPAR SGPS, S.A., as follows:

"Whereas:

a) The term of office of the current corporate bodies ended on December 31st, 2011;

b) The new members of the Board of the General Meeting for the 2012 – 2015 term of office should be elected, respecting the applicable independence requirements under the law;

BESPAR – Sociedade Gestora de Participações Sociais, S.A. proposes that the meeting resolves on the following:

1. To elect as members of the Board of the General Meeting Messrs:

- Paulo de Pitta e Cunha – Chairman
- Fernão de Carvalho Fernandes Thomaz – Vice-Chairman
- Nuno Miguel Matos Silva Pires Pombo – Secretary

2. That the members now proposed take office immediately."

As no one wished to intervene, the proposal was put to the vote, and it was approved by a majority of 10,157,362 votes, with 4,215 dissenting votes and 22,832 abstentions, in a total of 10,184,409 votes present in the meeting.

(...)
The meeting then proceeded to analyse items two, three and four of the Agenda.

Item Two: "Resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to financial year 2011." BES's Board of Directors submitted the following proposal:

"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 2011, to the Shareholders, for appreciation and discussion, proposing their approval."
Item Three: "Resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to financial year 2011". BES's Board of Directors submitted the following proposal:

"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. for the financial year of 2011, to the Shareholders, for appreciation and discussion, proposing their approval."

Item Four: “Resolve on the allocation of earnings.” BES’s Board of Directors submitted the following proposal:

“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 loss of the year, amounting to EUR 133,089,418.85 (one hundred thirty three million, eighty nine thousand, four hundred eighteen euros and eighty five cents), be allocated to the balance sheet item “Other reserves and retained earnings”.

At this point the Board of the General Meeting was informed that the number of shares owned by the Shareholders present or represented was 1,018,548,690, corresponding to 69.70% of the share capital, and to 10,185,446 votes.

The meeting then voted separately on the above proposals.

The proposal on Item Two of the Agenda was approved by a majority of 10,177,042 votes, with 453 dissenting votes and 4,173 abstentions, in a total of 10,181,668 votes present.

The proposal on Item Three of the Agenda was approved by a majority of 9,831,297 votes, with 1,875 dissenting votes and 348,496 abstentions, in a total of 10,181,668 votes present.

Finally, the proposal on Item Four of the Agenda was approved by a majority of 10,179,040 votes, with 503 dissenting votes and 2,125 abstentions, in a total of 10,181,668 votes present.

The meeting then moved to Item Five: “Make a general assessment of BES’ management and supervisory bodies”, about which the shareholder BESPAR SGPS, S.A. submitted the following proposal:

“Pursuant to the terms of Article 455 (1) of the Portuguese Companies Code, which requires the Annual General Meeting to make a general assessment of the management and supervisory bodies of the company;

Bearing in mind the correctness of the management measures taken by BES’s Board of Directors in 2011, amidst a scenario of financial crisis in the Eurozone;

Considering also the commitment with which the Audit Committee carried out its supervision duties;

It is proposed that the General Meeting approve an expression of praise and a vote of confidence in the Board of Directors and the Audit Committee of the Company, and in each of the respective members.”

(...)
This proposal was put to the vote and approved by a majority of 10,161,750 votes, with 10,055 dissenting votes and 7,220 abstentions, in a total of 10,179,025 votes present.

The meeting then considered Item Six of the Agenda: “Resolve on the Remuneration Committee and Board of Directors’ statements on the remuneration policy of BES’ management and supervisory bodies and remaining BES senior officers, respectively.”

The Remuneration Committee presented the following statement (6.A) on the remuneration policy of the corporate bodies of Banco Espírito Santo, S.A.:

“Whereas:

1 – Following the approval of Law no. 28/2009 of 19 June, the 2010 Annual General Meeting approved the remuneration policy of the members of the management and supervisory bodies submitted to it by the Remuneration Committee;

2 – Based on the annual assessment made of BES’s remuneration structure, the Remuneration Committee concluded that the remuneration policy approved in 2010 was still up to date; this remuneration policy must now be amended in accordance with the new requirements imposed by Decree-Law no. 88/2011, of 20 June and Bank of Portugal Notice 10/2011.

Considering the above, BES’s Remuneration Committee proposes that the General Meeting approves the «Statement on the Remuneration Policy of the Members of the Management and Supervisory Bodies» for 2012.”

(...)
Proposal 6.A was open for discussion, and as no one wished to take the floor, it was put to the vote, and approved by a majority of 10,130,816 votes, with 10,263 dissenting votes and 34,246 abstentions, in a total of 10,175,325 votes present.

The Board of Directors then presented the following statement (6.B) on the remuneration policy of the remaining senior officers of Banco Espírito Santo, SA:

“Whereas:

1 – The 2010 Annual General Meeting approved the remuneration policy of BES senior officers as set out in a proposal submitted to it by the Board of Directors;

2 – Based on the annual assessment made of the remuneration structure of BES senior officers, the Board of Directors concluded that said proposal should be broadly maintained, with only minor changes intended to adapt it to the year 2012.

BES’ Board of Directors proposes that the General Meeting approves the «Statement on the Remuneration Policy of the Senior Officers», which is included as an Annex to this proposal.”

(...)
Proposal 6.B was open for discussion, and as no one wished to take the floor, it was put to the vote, and approved by a majority of 10,127,026 votes, with 9,920 dissenting votes and 38,379 abstentions, in a total of 10,175,325 votes present.

The Chairman of the General Meeting then proceeded to Item Seven of the Agenda: “Approve the amendments to the “Variable Remuneration Plan based on Financial Instruments” applying to BES’s executive directors”. The Remuneration Committee submitted a proposal which is transcribed below.

Whereas:

1 – The General Meeting held on April 6th, 2010 approved a «Variable Remuneration Plan Based on Financial Instruments» that regulates the attribution of financial instruments to the members of the Executive Committee as a form of variable remuneration;

2 – The new legal and regulatory requirements imposed by Decree-Law no. 88/2011, of 20th June and Bank of Portugal Notice 10/2011 require that certain amendments be made to the Plan approved in April 2010, now being a good opportunity to revise the Plan;

3 – The following amendments in particular are proposed:

a) to provide for the possibility of attributing stock options to be exercised after a period of more than 3 years;

b) to adapt the rules on attribution of shares to the new requirements on the deferral of the variable remuneration, and on the composition of this remuneration with financial instruments;

c) to establish a period of retention of the shares attributed;

d) to change the rules concerning the effects of retirement on the attribution of shares or stock options to the executive Board members.

The Remuneration Committee proposes the approval of the «Variable Remuneration Plan Based on Financial Instruments» attached herein, which reproduces the 2010 original plan with the amendments now made."

(...)

The above proposal was open for discussion. As no one wished to intervene, the Chairman of the General Meeting put said proposal to the vote, and it was approved by a majority of 10,148,001 votes, with 21,768 dissenting votes and 4,841 abstentions, in a total of 10,174,610 votes present.

The meeting then moved to Item Eight: "Approve the amendments to the "Variable Remuneration Plan based on Financial Instruments" applying to BES's senior officers". The Board of Directors submitted a proposal reading as follows:

"Whereas:

1 – The General Meeting held on April 6th, 2010 approved a «Variable Remuneration Plan Based on Financial Instruments» that regulates the attribution of financial instruments to BES's senior officers as a form of variable remuneration;

2 – The new legal and regulatory requirements imposed by Decree-Law no. 88/2011, of 20 June and Bank of Portugal Notice 10/2011 require that certain amendments be made to the Plan approved in April 2010, now being a good opportunity to revise the Plan;

3 – The following amendments in particular are proposed:

a) to provide for the possibility of attributing options to acquire shares, to be exercised after a period of more than 3 years;

b) to establish a principle allowing for the possibility of retention of the shares attributed;

c) to change the rules concerning the effects of retirement on the attribution of stock options.

The Board of Directors proposes the approval of the «Variable Remuneration Plan Based on Financial Instruments» attached herein, which reproduces the 2010 original plan with the amendments now made."

After having been open for discussion, and as no one wished to intervene, the proposal was put to the vote and approved by a majority of 10,148,355 votes, with 21,596 dissenting votes and 4,604 abstentions, in a total of 10,172,973 votes present.

The meeting then moved on to Item Nine of the Agenda:

"Appoint the members of the corporate bodies for the 2012-2015 term of office, except for the members of the Board of the General Meeting", concerning which BESPAR SGPS, S.A. submitted the following proposal:

"Whereas:

a) The term of office of the current corporate bodies ended on December 31st, 2011;

b) The Board of the General Meeting having been elected at the start of this meeting, the other corporate bodies for the 2012 – 2015 term of office should also be elected, in accordance with the requirements and recommendations of the supervision authorities, namely with respect to the composition of the Board of Directors, Audit Committee and Board of the General Meeting and the independence requirements of all or part of their Members;

BESPAR – Sociedade Gestora de Participações Sociais, S.A. proposes that the following resolutions be taken concerning the 2012 – 2015 term of office:

1. To elect as members of the Board of Directors Messrs:

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
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Ricardo Abecassis Espírito Santo Silva
Amílcar Carlos Ferreira de Morais Pires
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
Antônio Bornia
Marc Olivier Tristan Oppenheim
Michel Jacques Mathieu
Vincent Claude Pacaud
Rita Maria Lagos do Amaral Cabral
Stanislas Ribes
Horácio Lisboa Afonso
Pedro João Reis de Matos Silva

2. To appoint as Chairman and Vice-Chairmen 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)

3. To elect as members of the Audit Committee the following Board members:

Horácio Lisboa Afonso (Chairman)
Pedro João Reis de Matos Silva
João de Faria Rodrigues

who meet the independence criteria as well as the requirements concerning incompatibility and specialisation imposed by Article 423-B of the Portuguese Companies Code.

4. To elect as members of the Executive Committee Messrs:

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
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Amílcar Carlos Ferreira de Morais Pires
João Eduardo Moura da Silva Freixa
Stanislas Ribes

5. That the liability of each director be guaranteed by one or other of the means foreseen in Article 396 of the Portuguese Companies Code.

6. That the persons elected under the terms of this proposal as members of the corporate bodies of “Banco Espírito Santo, S.A.” for the 2012 – 2015 term of office take office immediately.”

The Chairman of the General Meeting declared the proposal open for discussion. As no one wished to take the floor, the proposal was put to the vote and approved by a majority of 9,416,450 votes, with 750,495 dissenting votes and 6,028 abstentions, in a total of 10,172,973 votes present.

The meeting then proceeded to Item Ten:” Appoint the Statutory (“ROC”)/ External Auditor and deputy statutory auditor for the 2012-2015 term of office”.

BES’s Audit Committee submitted the following proposal:

“Whereas:

a) in 2006 Banco Espírito Santo, S.A. adopted the Anglo-Saxon governance model, characterised by the existence of a Board of Directors, comprising an Audit Committee as the supervisory body, and a Statutory/External Auditor;

b) as provided for in Article 423-F (m)) of the Companies Code, the Audit Committee is responsible for “making a proposal to the general meeting as regards the appointment of the statutory auditor”;

c) in accordance with Recommendation III.1.3 of the Corporate Governance Code, the Audit Committee in office issued the Opinion attached hereto, dated February 22nd, 2012, with which we agree, in which it provides the reasons for submitting to this General Meeting a proposal to appoint the present Statutory/External Auditor for a new term in office;

d) the proposal on the election of the corporate bodies of Banco Espírito Santo, S.A., including the appointment of the Audit Committee, for the 2012 – 2015 term of office, has been previously voted by this General Meeting; in light of the above, under the terms of Articles 11 (1), 27 (h)) and 28 of the articles of association of Banco Espírito Santo, S.A., and the provisions of Articles 415, 446 (1) and 423-F (m)) of the Companies Code, and conditional upon the approval of the proposal referred to in recital d) above, the Audit Committee of Banco Espírito Santo, S.A. proposes that the General Meeting approves the following appointments for BES’s Statutory/External Auditor and deputy Statutory Auditor in the 2012-2015 term of office:

   - Statutory/External Auditor – KPMG & Associados, SROC, S.A. (ROC no. 189) represented by: Sílvia Cristina de Sá Velho Corrêa da Silva Gomes (ROC no. 1131);

   - Deputy Statutory Auditor – Fernando Gustavo Duarte Antunes (ROC no. 1233).

(...)
The above proposal was open for discussion, and as no Shareholder wished to intervene, the Chairman of the General Meeting submitted it to the vote, and it was approved by a majority of 10,161,276 votes, with 8,842 dissenting votes and 2,777 abstentions, in a total of 10,172,895 votes present.

Going into Item Eleven: “Appoint the members of the Remuneration Committee for the 2012-2015 term of office”, BESPAR SGPS, S.A. submitted the following proposal:

“Whereas:

The Remuneration Committee is an essential element in the Bank’s Corporate Governance structure, determining the remuneration of the governing bodies, and should be formed by persons with independence relative to the Board of Directors and who give assurance to the Shareholders that they act with impartiality and freedom of judgment;

It is proposed to appoint the following representatives to the Remuneration Committee of Banco Espírito Santo, S.A. for the 2012- 2015 term of office:

- Daniel Proença de Carvalho
- Jacques dos Santos
- Álvaro Pinto Correia

It is further proposed that the members of the Remuneration Committee be paid a fixed remuneration of one thousand five hundred euros, paid twelve times per year”.

The above proposal was open for discussion. As no Shareholder wished to take the floor, the proposal was put to the vote and approved by a majority of 10,165,292 votes, with 6,304 dissenting votes and 1,299 abstentions, in a total of 10,172,895 votes present.

Finally, the meeting moved to Item Twelve: “Resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES’s control”.

BES’s Board of Directors submitted the proposal concerning the acquisition and sale of own shares and bonds, by BES or companies under BES’s control.

(...)
After being open for discussion and no Shareholder wished to intervene, the proposal was put to the vote and approved by a majority of 10,137,541 votes, with 32,736 dissenting votes and 2,618 abstentions, in a total of 10,172,895 votes present.

(...)
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.