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.

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II. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

1. Consolidated Financial Statements and Notes to the Financial Statement

GRUPO BANCO ESPÍRITO SANTO

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

GRUPO BANCO ESPÍRITO SANTO

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

GRUPO BANCO ESPÍRITO SANTO

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

GRUPO BANCO ESPÍRITO SANTO

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			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
						Fair value reserve	Other reserves, retained earnings and other comprehensive income	Total				
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

GRUPO BANCO ESPÍRITO SANTO

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

Grupo Banco Espírito Santo

Notes to the Consolidated Financial Statements as at 31 December 2011

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

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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

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

BES is listed on the Euronext Lisbon. As at 31 December 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*
Espírito 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*
Espírito Santo International Asset Management, Ltd.	*1998*	*1998*	*British Virgin Islands*	*Asset management - investment funds*	*44.10%*	*Equity method*
Espírito Santo Gestão de Patrimônios, 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 Espírito 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%* [b]	*Equity method*
Ascendi Group SGPS, SA	*2010*	*2010*	*Portugal*	*Motorway concession*	*28.66%*	*Equity method*
SCUTVIAS - Autoestradas da Beira Interior, SA	*1999*	*2010*	*Portugal*	*Motorway concession*	*15.93%* [b]	*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%*	*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	31.12.2010
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, SA.
- 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:

(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.	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
	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.

(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 Transport	-	-	-	(2 400)	-	(2 400)	2 000
Outros	1 388	2 989	4 377	-	(652)	(652)	-
	274 132	18 487	292 619	(169 254)	(5 355)	(174 609)	46 523
	394 921	**63 581**	**458 502**	**(169 254)**	**(5 355)**	**(174 609)**	**46 401**

(a) Capital increase and loans to companies

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 interim 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 interim 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 t<o 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 equipment	4 to 10
Motor vehicles	4
Other equipment	5

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and an impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

2.14. 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 share capital 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 or 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	(269 542)	9 888	7 416	18 627	14 334	20 442	91 712	1 133	2 449	(5 197)	(108 738)
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:

(milhares de euros)

	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 entitie	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 entitie	-	-	-	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**

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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 (ajustada)			
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:

(milhares de euros)

	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 thousand 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 thousand 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:

	Pressupostos à data de ínicio do PPRV	Após aumento de capital realizado em 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 PRVIF
Inicial reference date	12-Apr-2011
Final reference date	31-Mar-14
Rights granted to employees	2,250,000
Reference price (in euro)	3.47
Interest rate	2.31%
Volatility	40.00%
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 thousand of euro)

	31.12.2011			31.12.2010		
	Notional	Fair value		Notional	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 government 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
Saldo final	**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 manageme	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 (2)	Changes in the fair value of the derivative in the year	Fair value component of the hedged item (1)	Changes in the fair value of the hedged item in the year (1)
Interest Rate Swap/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) Attributable to the hedged risk
(2) Includes accrued interest

(in thousands of euro)

31.12.2010							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (2)	Changes in the fair value of the derivative in the year	Fair value component of the hedged item (1)	Changes in the fair value of the hedged item in the year (1)
Interest Rate Swap	Loans and advances to customers	Interest rate	2 048 700	(10 064)	2 759	21 140	(4 307)
Interest Rate Swap/Currency Interest Rate Swap	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) Attributable to the hedged risk
(2) Includes accrued interest

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under net gains/ (losses) from financial assets at fair value through profit or loss (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 - Notional	Derivative - Fair Value	Derivative - Changes in the fair value during the year	Assets/liabilities associated - Fair Value	Assets/liabilities associated - Changes in the fair value during the year	Assets/liabilities associated - 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.

(thousands of euro)

31.12.2010

Derivative	Financial assets/liabilities economically hedged	Derivative - Notional	Derivative - Fair Value	Derivative - Changes in the fair value during the year	Assets/liabilities associated - Fair Value	Assets/liabilities associated - Changes in the fair value during the year	Assets/liabilities associated - 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 forwards	Debt security issued	1 422 772	(13 897)	14 563	117 996	54 527	424 205	545 001
Credit Default Swap	Debt security issued	95 330	(10 389)	(9 621)	7 732	10 212	141 652	147 637
Equity Swap	Debt security issued	295 382	(15 518)	(22 396)	(6 418)	12 650	237 948	226 512
Equity Option	Debt security issued	16 027	322	783	19	39	10 391	10 387
Fx Option	Debt security issued	605	8	(192)	(21)	255	15 475	15 453
		5 862 018	**50 509**	**(38 307)**	**104 010**	**46 517**	**5 383 286**	**5 642 422**

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity.

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 Notional	31.12.2011 Fair Value	31.12.2010 Notional	31.12.2010 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:

(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:

(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:

(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:

(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:					
Geradas internamente	-	-	-	8 899	8 899
Adquiridas a terceiros **(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
				c)				
BES VIDA **a)**	537 497	474 997	50.00%	50.00%	200 000	387 394	(193 261)	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 beginning 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)
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:

(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	17-11-2009	17-02-2015	Annual	3.375%	Baa3
BES Covered Bonds DUE JUL17	750 000	132	07-07-2010	09-07-2017	Annual	6 month Euribor + 0.60%	Baa3
BES Covered Bonds 21/07/2017	1 250 000	-	21-07-2010	21-07-2017	Annual	6 month Euribor + 0.60%	Baa3
BES Covered Bonds DUE 4.6%	40 000	40 445	15-12-2010	26-01-2017	Annual	Fixed Rate 4.6%	Baa3
BES Covered Bonds HIPOT. 2018	1 250 000	-	25-01-2011	25-01-2018	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 ER3,75%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
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%

(in thousands of euro)

Issuer	Designation		31.12.2011				
			Currency	Issue date	Book value	Maturity	Interest rate
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)
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)

(in thousands of euro)

			31.12.2011				
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
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)
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
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)

(in thousands of euro)

Issuer	Designation		31.12.2011				
			Currency	Issue date	Book value	Maturity	Interest rate
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) Indexada a Cabaz de Acções Petrobras, Companhia Siderurgia Nacional, Itau Unibanco and Banco Bradesco.
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). The current and deferred tax for the nine month period ended 30 September 2011 was determined based on a tax rate of 26.5% 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 Tax Authorities are entitled to review the Bank and the Group subsidiaries located in Portugal determination of annual taxable earnings, for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank and those of its subsidiaries, are confident that there will be no material differences arising from tax assessments within the context of the financial statements.

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	
	%	Valor	%	Valor
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%	-	-	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)

Issuer	Designation	Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity	
		31.12.2011						
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	não aplicável
	Non-cumulative guaranteed step-up preference shares series A	€197 446 000	66 912 209	não aplicável
	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 338 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	Number of shares	Amount (thousand of
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					
	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	Total
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
Fin Solutia - Consultoria e Gestão de Créditos, SA
Polish Hotel Company, SP
Polish Hotel Capital SP
Polish Hotel Management Company, SP
Hlc - Centrais de Cogeração, SA
Coporgest
Synergy Industry and Technology, S.A.
Salgar Investments
SO PESO Restauração e Hotelaria, SA
2BCapital, SA
Espírito Santo IBERIA I
Apolo Films SL
Brb Internacional, S.A.
Prosport, SA
Banque Espirito Santo et de la Vénétie, SA
YUNIT - Serviços, SA
E.S. Contact Center - Gestão de Call Centers, SA
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, SA
BES, Companhia de Seguros , SA
BES-Vida, Companhia de Seguros, SA
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA
Esegur - Empresa de Segurança, SA
Ascendi Group, SGPS, SA
Empark Aparcamientos y Servicios SA
Concesionaria Autopista Perote-Xalapa, CV
Autovia De Los Vinedos, SA
MRN - Manutenção de Rodovias Nacionais, SA
Portvias - Portagem de Vias, SA
Scutvias - Autoestradas da Beira Interior , SA
SOUSACAMP, SGPS, SA
GLOBAL ACTIVE - GESTÃO P.S.SGPS, SA
OUTSYSTEMS, SA
Coreworks - Proj. Circuito Sist. Elect., SA
Multiwave Photonics, SA
BIO-GENESIS
YDreams - Informática, SA
Nutrigreen, S.A.
Advance Ciclone Systems, SA
WATSON BROWN HSM, Ltd
Domática, Electrónica e Informática, SA
MMCI - Multimédia, SA
Mobile World - Comunicações, SA
Sopratutto Café , SA
Enkrott SA
Rodi Sinks & Ideas, SA
Palexpo - Imagem Empresarial, SA
Nova Figfort - Têxteis, Lda
TLCI 2 - Soluções Integradas de Telecomunicações, SA
BANCO DELLE TRE VENEZIE SPA
NANIUM , SA
IJAR LEASING ALGÉRIE
Ascendi Pinhal Interior Estradas do Pinhal Interior, SA
Ascendi Douro Estradas do Douro Interior, SA
Unicre - Cartão Internacional de Crédito, SA
MOZA BANCO

ESFG's subsidiaries, associates and related entities
Bespar - Sociedade Gestora de Participações Sociais, SA
Banque Privée Espírito Santo
Banque Privée Espírito Santo Sucursal Portugal
ES Bank (Panama), SA
ES Bankers (Dubai) Limited
Espirito Santo Financial (Portugal), SGPS, SA
Espirito Santo Financial Group, SA
ESFG International, Ltd
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo)
Espírito Santo International SA
MANDEL PARTNERS
Espírito Santo Saúde SGPS, S.A.
Clínica Parque dos Poetas, SA
Cliria - Hospital Privado de Aveiro, SA
ES Saúde - Residência com Serviços Senior, S.A.
Espírito Santo - Unidades de Saúde e de Apoio à Terceira Idade, S.A.
Genomed, Diagnóstico de Medicina Molecular, SA
HCI - Health Care International, Inc
HME Gestão Hospitalar
Hospital da Arrábida - Gaia, SA
Hospital da Luz - Centro Clínico da Amadora, SA
Hospital da Luz, SA
Hospor - Hospitais Portugueses, SA
Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A.
RML - Residência Medicalizada de Loures, SGPS, SA
Surgicare - Unidades de Saúde, SA
Vila Lusitano - Unidades de Saúde, SA
Key Space Investments LLC
Marignan Courtage, SA
Marignan Gestion, SA
Omnium Lyonnais de Participations Industrielles, SA
Partran - Sociedade Gestora de Participações Sociais, SA
Société Antillaise de Gestion Financiére, S.A. - SAGEFI
Société Lyonnaise de Marchands de Biens
Companhia de Seguros Tranquilidade, SA
T - Vida, Companhia de Seguros, SA
Seguros Logo, SA
Advancecare - Gestão e Serviços de Saúde, SA
Pastor Vida, S.A de Seguros y Reaseguros
Esumédica - Prestação de Cuidados Médicos, SA
Europe Assistance - Companhia Portuguesa de Seguros de Assistência, SA

ESFG's subsidiaries, associates and related entities
Group Credit Agricole
Saxo Bank
The Atlantic Company (Portugal) - Turismo e Urbanização, SA
Agribahia, S/A
Atr - Actividades Turisticas e Representações, Lda
Aveiro Incorporated
Beach Heath Investments, Ltd
Companhia Agricola Botucatu, SA
Casas da Cidade - Residências Sénior, SA
Cerca da Aldeia - Sociedade Imobiliária, SA
Cimenta - Empreendimentos Imobiliários, SA
Cidadeplatina - Construção SA
Clarendon Properties, Inc.
Clube de Campo da Comporta - Actividades Desportivas e Lazer, Lda
Club de Campo Villar Ollala, SA
Clup Vip - Marketing de Acontecimentos, SA
Clube Residencial da Boavista, SA
Companhia Brasileira de Agropecuária Cobrape
Coimbra Jardim Hotel - Sociedade de Gestão Hoteleira, S.A.
Construcciones Sarrión, SL
Ganadera Corina Campos y Haciendas, S/A
E.S.B. Finance Ltd
Eastelco - Consultoria e Comunicação, SA
E.S. Asset Administration, Ltd.
Espírito Santo Cachoeira Desenvolvimento Imobiliário Ltda
ES Comercial Agrícola, Ltda
Espírito Santo Guarujá Desenvolvimento Imobiliário Ltda
ES Holding Administração e Participações, S/A
Espírito Santo Hotéis, SGPS, SA
Espirito Santo Industrial (BVI), SA
Espírito Santo Indaiatuba Desenvolvimento Imobiliário Ltda
Espírito Santo Industrial, SA
Espírito Santo Industrial (Portugal) - SGPS, SA
Espírito Santo Irmãos - Sociedade Gestora de Participações Sociais, SA
Espírito Santo Itatiba Desenvolvimento Imobiliário Ltda
Espírito Santo Primavera Desenvolvimento Imobiliário Ltda
ES Private Equity, Ltd
Espirito Santo Property (Brasil) S/A
Espírito Santo Services, SA
Espirito Santo Tourism, Ltd
Espirito Santo Tourism (Europe), SA
Espírito Santo Venture Ltd
Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, SA
ES Viagens e Turismo, Lda
Espírito Santo Viagens - Consultoria e Serviços, SA
Escae Consultoria, Administração e Empreendimento, Ltda
Escopar - Sociedade Gestora de Participações Sociais, SA
ESDI Administração e Participações Ltda
Esger - Empresa de Serviços e Consultoria, SA
Espirito Santo International (BVI), SA
E.S. International Overseas, Ltd.
Esim - Espirito Santo Imobiliário, SA
E.S. - Espírito Santo, Mediação Imobiliária, S.A.
Espirito Santo Property SA
Espirito Santo Property Holding, SA
Espírito Santo Property España, S.L.
Espart Madeira SGPS, Unipessoal, Lda
Espart - Espirito Santo Participações Financeiras, SGPS, SA
Espirito Santo Resources, Ltd
Espirito Santo Resources (Portugal), SA
E.S. Resources Overseas, Ltd
Espírito Santo Resources SA
Estoril Inc
Euroamerican Finance Corporation, Inc.
Euroamerican Finance SA
Euroatlantic, Inc.
Fafer - Empreendimentos Turisticos e de Construção, SA
Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, SA
GES Finance Limited
Gesfimo - Espirito Santo, Irmãos, Soc. Gestora de Fundos de Investimento Imobiliários,SA
Gestres - Gestão Estratégica Espirito Santo, SA
Goggles Marine, Ltd
Sociedad Agricola Golondrina, S/A
HDC - Serviços de Turismo e Imobiliário, SA
Herdade da Boina - Sociedade Agrícola, SA
Herdade da Comporta - Actividades Agro Silvícolas e Turísticas, SA
Hoteis Tivoli, SA
Hotelagos, SA
Hospital Residêncial do Mar, SA
I.A.C. UK, Limited
Inter-Atlântico, S/A
Iber Foods - Produtos Alimentares e Biológicos, SA
Imopca, SA
Lote Dois - Empreendimentos Turisticos SA
Luzboa, SA
Luzboa Um, SA
Luzboa Dois, SA
Luzboa Três, SA
Luzboa Quatro, SA
BEMS, SGPS, SA
Margrimar - Mármores e Granitos, SA
Marinoteis - Sociedade de Promoção e Construção de Hoteis, SA
Marmetal - Mármores e Materiais de Construção, SA
Metal - Lobos Serralharia e Carpintaria, Lda
Moldebetão - Sociedade de Betões, SA
Multiger - Sociedade de Gestão e Investimento Imobiliário, SA
Mundo Vip - Operadores Turísticos, SA
Net Viagens - Agência de Viagens e Turismo, SA
Novagest Assets Management, Ltd

ESFG's subsidiaries, associates and related entities
Opca Angola, SA
Opca Moçambique, Lda
Opcatelecom - Infraestuturas de Comunicação, SA
OPWAY - Engenharia, SA
OPWAY Imobiliária, SA
OPWAY - SGPS, SA
Pavi do Brasil - Pré-Fabricação, Tecnologia e Serviços, Lda.
Pavicentro - Pré-Fabricação, SA
Pavilis - Pré-Fabricação, SA
Paviseu - Materiais Pré-Fabricados, SA
Pavitel, SARL
Personda - Sociedade de Perfurações e Sondagens, SA
Placon - Estudos e Projectos de Construção, Lda
Pojuca, SA
Pontave - Construções, SA
Agência Receptivo Praia do Forte, Ltda
Praia do Forte Operadora de Turismo, Ltda
Grupo Proyectos y Servicios Sarrion, SA
Quinray Technologies Corp.
Quinta da Areia - Sociedade Agrícola Quinta da Areia, SA
Sociedade Agricola Quinta D. Manuel I, SA
Recigreen - Reciclagem e Gestão Ambiental, SA
Recigroup - Industrias de Reciclagem, SGPS, SA
Recipav - Engenharia e Pavimentos, Unipessoal, Lda
Recipneu - Empresa Nacional de Reciclagem de Pneus, Lda
Santa Mónica - Empreendimentos Turísticos, SA
Saramagos S/A Empreendimentos e Participações
Société Congolaise de Construction et Travaux Publiques, SARL
Series - Serviços Imobiliários Espirito Santo, SA
Sociedade Gestora do Hospital de Loures, SA
Sintra Empreendimentos Imobiliários, Ltda
Sisges, SA Desenvolvimento de Projectos de Energia

ESFG's subsidiaries, associates and related entities
Soguest - Sociedade Imobiliária, SA
Solférias - Operadores Turísticos, Lda
Sopol - Concessões, SGPS, SA
Sotal - Sociedade de Gestão Hoteleira, S.A.
Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, SA
Suliglor - Imobiliária do Sul, SA
TA DMC Brasil - Viagens e Turismo, SA
Agência de Viagens Tagus, S.A.
Construtora do Tamega Madeira SA
Construtora do Tamega Madeira SGPS SA
Terras de Bragança Participações, Ltda
Timeantube Comércio e Serviços de Confecções, Ltda
Tivoli Gare do Oriente - Sociedade de Gestão Hoteleira, S.A.
TOP A DMC Viajes, SA
Top Atlântico - Viagens e Turismo, SA
Top Atlântico DMC, SA
Transcontinental - Empreendimentos Hoteleiros, SA
Turifonte, Empreendimentos Hoteleiros, SA
Turistrader - Sociedade de Desenvolvimento Turístico, SA
Ushuaia - Gestão e Trading Internacional Limited
Sociedade Agricola Turistica e Imobiliária Várzea Lagoa, SA
Viveiros da Herdade da Comporta - Produção de Plantas Ornamentais, Lda
Sociedade de Administração de Bens-Pedra da Nau, S.A.
Ribeira do Marchante, Administração de Bens Móveis e Imóveis, S.A.
Casa da Saudade, Administração de Bens Móveis e 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 INTERIO	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	Dezembro de 2002	1 000 000	395 551	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	Novembro de 2003	1 000 000	394 088	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	Novembro de 2004	1 200 000	561 572	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	Setembro de 2005	1 200 000	639 469	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	Setembro de 2006	1 400 000	885 194	Mortgage loans (general regime)
Lusitano SME No.1 plc	Outubro de 2006	862 607	388 870	Loans to small and medium entities
Lusitano Mortgages No.6 plc	Julho de 2007	1 100 000	798 263	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	Dezembro de 2007	1 079 100	145 462 (1)	Project Finance loans
Lusitano Mortgages No.7 plc	Setembro de 2008	1 900 000	1 878 634	Mortgage loans (general regime)
Lusitano Leverage finance No. 1 BV	Fevereiro de 2010	516 534 (2)	249 208	Leverage Finance Loans
Lusitano SME N.º 2	Dezembro de 2010	1 951 908 (3)	1 662 696	Loans to small and medium entities
Lusitano Finance N.º 3	Novembro de 2011	657 981	631 766	Loans to households
IM BES Empresas 1	Novembro de 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 B	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

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	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	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.

(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	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)**

(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	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	1.43%
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**

Nota: 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 thousands 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) O *mismatch* acumulado corresponde à diferença entre os activos e passivos com prazos residuais até um ano

(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 primarily 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**

(milhares de euros)

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 profi	(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	(178)	178	178	-
31 December 2010	**884 529**	**(884 529)**	**(930 979)**	**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		**(627 210)**	**(673 660)**	**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.

NOTE 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.

2. Appendix - Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

(Banco of Portugal's Circular Letter no. 97/2008/DSB, of 3 December)

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.

[1] The numbering refers to the Notes to the Consolidated Financial Statements

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.

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.

3. Auditors' Report on the Consolidated Financial Statements

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.

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)

4. Report of the Audit Committee

BANCO ESPIRITO SANTO

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

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

III. INDIVIDUAL FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

1. Individual Financial Statements and Notes to the Financial Statement

BANCO ESPÍRITO SANTO, S.A.

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	4	2 966 191	2 698 091
Interest expense and similar charges	4	2 312 253	2 035 732
Net interest income		**653 938**	**662 359**
Dividend income	5	380 480	319 083
Fee and commission income	6	625 686	626 386
Fee and commission expenses	6	(155 934)	(146 407)
Net gains/ (losses) from financial assets at fair value through profit or loss	7	(309 522)	(282 351)
Net gains from available-for-sale financial assets	8	16 234	330 410
Net gains from foreign exchange differences	9	254	(15 860)
Net gains/ (losses) from the sale of other assets	10	(50 000)	(12 101)
Other operating income and expense	11	423 660	23 600
Operating income		**1 584 796**	**1 505 119**
Staff costs	12	372 815	392 479
General and administrative expenses	14	322 199	344 918
Depreciation and amortisation	26 and 27	86 039	81 687
Provisions net of reversals	34	(19 091)	17 406
Loans impairment net of reversals	21 and 22	537 861	301 992
Impairment on other financial assets net of reversals	20 and 23	61 188	66 830
Impairment on other assets net of reversals	25, 28 and 29	500 785	57 450
Operating expenses		**1 861 796**	**1 262 762**
Gains on disposal of investments in subsidiaries and associates	28	655	-
Profit before income tax		**(276 345)**	**242 357**
Income tax			
Current tax	35	4 278	5 744
Deferred tax	35	(147 534)	(62 191)
Profit for the period		**(133 089)**	**298 804**
Earnings per share of profit attributable to the equity holders of the Bank			
Basic (in Euro)	15	(0.03)	0.26
Diluted (in Euro)	15	(0.03)	0.26

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

BANCO ESPÍRITO SANTO

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	**(133 089)**	**298 804**
Other comprehensive income for the year		
Long-term benefit	22 908	(77 266)
Pensions - transitory regime	(13 191)	(12 879)
	9 717	(90 145)
Available-for-sale financial assets		
Net gains/(losses) for the year	(281 514)	69 282
Reclassification adjustments for gains/(losses) included in the profit or loss	61 876	(309 430)
Deferred taxes	51 701	34 999
	(167 937)	(205 149)
	(158 220)	(295 294)
Total comprehensive income for the year	**(291 309)**	**3 510**

BANCO ESPÍRITO SANTO, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2011 AND 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	481 371	488 677	1 686 023
Deposits with banks	17	341 698	262 986	322 297
Financial assets held for trading	18	1 783 039	2 077 134	3 344 104
Other financial assets at fair value through profit or loss	19	1 969 331	1 780 171	922 558
Available-for-sale financial assets	20	14 275 267	12 094 262	7 174 460
Loans and advances to banks	21	7 928 825	8 472 098	12 048 539
Loans and advances to customers	22	39 115 887	41 095 813	40 379 161
Held-to-maturity investments	23	830 077	1 669 268	2 034 947
Derivatives for risk management purposes	24	487 923	499 544	579 895
Non-current assets held for sale	25	767 742	529 586	348 740
Property and equipment	26	371 947	379 541	402 935
Intangible assets	27	118 242	120 190	104 988
Investments in associates	28	1 754 708	1 776 600	1 700 598
Current income tax assets		1 872	77 669	5 009
Deferred income tax assets	35	799 538	660 764	579 915
Other assets	29	3 059 174	3 350 088	2 486 118
Total Assets		**74 086 641**	**75 334 391**	**74 120 287**
Liabilities				
Deposits from central banks	30	9 232 202	7 391 791	3 378 514
Financial liabilities held for trading	18	1 605 217	1 658 661	1 361 876
Deposits from banks	31	11 139 698	13 565 577	11 560 867
Due to customers	32	31 179 373	26 591 014	22 594 175
Debt securities issued	33	10 163 659	14 054 753	24 984 918
Financial liabilities associated to transferred assets		2 951 364	2 043 754	-
Derivatives for risk management purposes	24	155 741	277 407	370 338
Provisions	34	581 105	628 489	627 174
Current income tax liabilities		15 080	2 871	108 447
Deferred income tax liabilities	35	123 794	154 794	185 109
Subordinated debt	36	896 185	2 504 508	3 419 742
Other liabilities	37	871 741	832 674	613 200
Total liabilities		**68 915 159**	**69 706 293**	**69 204 360**
Equity				
Share capital	38	4 030 232	3 500 000	3 500 000
Share premium	38	1 076 522	1 080 257	1 080 258
Treasury stock	38	(997)	-	(25 083)
Other equity instruments	38	244 502	868 193	-
Other reserves, retained earnings and other comprehensive income	39	(45 688)	(119 156)	360 752
Profit for the year		(133 089)	298 804	-
Total equity		**5 171 482**	**5 628 098**	**4 915 927**
Total equity and liabilities		**74 086 641**	**75 334 391**	**74 120 287**

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

BANCO ESPÍRITO SANTO, S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2011, 2010 and 2009

(in thousands of euro)

	Share capital	Share premium	Other equity instruments	Fair value reserve	Reserves, retained earnings and other comprehensive income: Other reserves and retained earnings	Reserves, retained earnings and other comprehensive income: Other reserves, retained earnings and other comprehensive income	Reserves, retained earnings and other comprehensive income: Total	Profit for the year	Total equity
Balance as at 31 December 2009 (restated)	**3 500 000**	**1 080 258**	**(25 083)**	**-**	**213 390**	**(221 483)**	**(8 093)**	**368 845**	**4 915 927**
Other comprehensive income									-
Changes in fair value, net of taxes	-	-	-	-	(205 149)	-	(205 149)	-	(205 149)
Actuarial deviations	-	-	-	-	-	(77 266)	(77 266)	-	(77 266)
Pensions - transitory regime	-	-	-	-	-	(12 879)	(12 879)	-	(12 879)
Profit for the year	-	-	-	-	-	-	-	298 804	298 804
Total comprehensive income in the year	**-**	**-**	**-**	**-**	**(205 149)**	**(90 145)**	**(295 294)**	**298 804**	**3 510**
Capital increase	-	(1)	-	-	-	-	-	-	(1)
Issue of other capital instruments (See Note 38)	-	-	-	868 193	-	-	-	-	868 193
Transfer to reserves	-	-	-	-	-	205 667	205 667	(205 667)	-
Dividends on ordinary shares (a)	-	-	-	-	-	-	-	(163 178)	(163 178)
Changes in treasury stock	-	-	25 083	-	-	-	-	-	25 083
Share based payment scheme, net of taxes (see Note 13 and 38)	-	-	-	-	-	366	366	-	366
Settlement of share based payment scheme (see Note 13 and 38)	-	-	-		-	(22 131)	(22 131)	-	(22 131)
Other movements	-	-	-	-	-	329	329	-	329
Balance as at 31 December 2010	**3 500 000**	**1 080 257**	**-**	**868 193**	**8 241**	**(127 397)**	**(119 156)**	**298 804**	**5 628 098**
Other comprehensive income									
Changes in fair value, net of taxes	-	-	-	-	(167 937)	-	(167 937)	-	(167 937)
Actuarial deviations	-	-	-	-	-	22 908	22 908	-	22 908
Pensions - transitory regime	-	-	-	-	-	(13 191)	(13 191)	-	(13 191)
Profit for the year	-	-	-	-	-	-	-	(133 089)	(133 089)
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**(167 937)**	**9 717**	**(158 220)**	**(133 089)**	**(291 309)**
Capital increase	530 232	(3 735)	-	(437 893)	-	54 673	54 673	-	143 277
- issue of 294 573 418 new shares	*530 232*	-	-	-	-	-	-	-	*530 232*
- exchanges of equity instruments and preference shares	-	-	-	*(437 893)*	-	54 673	54 673	-	*(383 220)*
- Costs with capital increase	-	*(3 735)*	-	-	-	-	-	-	*(3 735)*
Transfer to reserves	-	-	-	-	-	151 849	151 849	(151 849)	-
Issue of other capital instruments	-	-	-	(185 798)	-	50 975	50 975	-	(134 823)
Dividends on ordinary shares (a)	-	-	-	-	-	-	-	(146 955)	(146 955)
Changes in treasury stock	-	-	(997)	-	-	-	-	-	(997)
Interests on other equity instruments (b)	-	-	-	-	-	(12 424)	(12 424)	-	(12 424)
Dividends on other equity instruments	-	-	-	-	-	(11 351)	(11 351)	-	(11 351)
Other movements	-	-	-	-	-	(2 034)	(2 034)	-	(2 034)
Balance as at 31 December 2011	**4 030 232**	**1 076 522**	**(997)**	**244 502**	**(159 696)**	**114 008**	**(45 688)**	**(133 089)**	**5 171 482**

(a) Corresponds to a dividend per share of euro 0.126 and 0.14 in 2011 and 2010, respectively, distributed to the ordinary shares outstanding.
(b) 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).

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

BANCO ESPÍRITO SANTO, S.A.

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		2 874 954	2 693 663
Interest expense and similar charges paid		(2 323 290)	(1 933 786)
Fees and commission received		645 587	648 813
Fees and commission paid		(166 362)	(164 176)
Recoveries on loans previously written off		26 439	19 098
Contributions to pensions' fund		(76 020)	(55 574)
Cash payments to employees and suppliers		(121 340)	(1 384 536)
		859 968	**(176 498)**
Changes in operating assets and liabilities:			
Deposits with central banks		3 061 270	490 020
Financial assets at fair value through profit or loss		(258 031)	479 969
Loans and advances to banks		(658 378)	3 580 572
Deposits from banks		(2 414 905)	5 977 060
Loans and advances to customers		1 843 886	596 943
Due to customers		4 510 808	3 916 232
Derivatives for risk management purposes		(152 397)	(70 899)
Other operating assets and liabilities		(302 190)	(206 827)
Net cash from operating activities before income tax		**6 490 031**	**14 586 572**
Income taxes paid		84 963	(183 980)
Net cash from operating activities		**6 574 994**	**14 402 592**
Cash flows from investing activities			
Acquisition of subsidiaries and associates		(325 278)	(76 964)
Disposal of subsidiaries and associates		2 953	925
Dividends received		380 480	319 083
Acquisition of available-for-sale financial assets		(45 542 686)	(37 414 562)
Sale of available-for-sale financial assets		43 217 784	32 836 242
Held to maturity investments		821 222	362 886
Acquisition of tangible and intangible assets		(71 697)	(70 260)
Sale of tangible and intangible assets		49	796
Net cash from investing activities		**(1 517 173)**	**(4 041 854)**
Cash flows from financing activities			
Issue of other equity instruments		-	868 193
Proceeds from issue of bonds		218 104	(3 584 147)
Reimbursement of bonds		(3 882 285)	(7 383 271)
Proceeds from issue of subordinated debt		8 174	80 000
Reimbursement of subordinated debt		(1 138 240)	(982 200)
Taxes of other equity instruments		(28 411)	-
Treasury stock		(997)	25 083
Dividends paid on ordinary shares		(146 955)	(163 178)
Net cash from financing activities		**(4 970 610)**	**(11 139 520)**
Net changes in cash and cash equivalents		**87 211**	**(778 782)**
Cash and cash equivalents at the beginning of the year		609 048	1 375 685
Effect of exchange rate changes on cash and cash equivalents		5 266	12 145
Net changes in cash and cash equivalents		87 211	(778 782)
Cash and cash equivalents at the end of the year		**701 525**	**609 048**
Cash and cash equivalents includes:			
Cash	16	202 699	190 490
Deposits at Central Banks	16	278 672	298 187
of which, restricted balances		(121 544)	(142 615)
Deposits with Banks	17	341 698	262 986
Total		**701 525**	**609 048**

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

Banco Espírito Santo, S.A.

Notes to the Individual Financial Statements as at 31 December 2011

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

NOTE 1 – ACTIVITY

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 listed on the Euronext Lisbon.

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 has a network of 703 branches (at 31 December 2010: 731), including international branches in London, Spain, New York, Nassau, Cayman Islands and Cape Verde, a branch in the Madeira Free Zone, and thirteen overseas representative offices.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial statements in accordance with Adjusted Accounting Standards (NCA), as established by the Bank of Portugal.

NCA are composed by all the standards included in the International Financial Reporting Standards (IFRS) as adopted for use in the EU, with the exception of issues regulated by the Bank of Portugal such as loans impairment and recognition in retained earnings of the adjustments related to pensions during the transition period.

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.

These individual financial statements as at and for the year ended 31 December 2011 were prepared in accordance with Adjusted Accounting Standards (NCA), which includes the IFRS adopted for use in the EU until 31 December 2011.

The accounting policies applied by the Bank in the preparation of these financial statements as at 31 December 2011 are consistent with the ones used in the preparation of the annual financial statements as at and for the year ended 31 December 2010.
However, as allowed under paragraph 93A of IAS 19 “Employee Benefits”, in 2011 the Bank changed its accounting policy related to actuarial gains and losses determination in post employment 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 46.

Additionally, as described in Note 47, in the preparation of the financial statements as at 31 December 2011, the Bank adopted the accounting standards issued by the IASB and IFRIC interpretations, effective since 1 January 2011. The accounting policies adopted by the Bank in the preparation of the Individual Financial Statements are in accordance with those described in that note. The adoption of these standards and interpretations by the Bank had no material effect in the Bank’s Individual Financial Statements.

The accounting standards and interpretations recently issued but not yet effective can also be analysed in Note 47.

These individual 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 NCA requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the Bank'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 financial statements are disclosed in Note 3.

These individual financial statements were approved in the Board of Directors meeting held on 29 February 2012.

2.2. Foreign currency translation

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.

2.3. Derivative financial instruments and hedge accounting

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

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

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

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 Bank, 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 years covered by these financial statements the Bank 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.

2.4. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Bank, 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 Bank 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 Bank 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 Bank 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 2.3. 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 2.5.

Impairment

The Bank 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 Bank first assesses whether objective evidence of impairment exists individually for each loan. In this assessment the Bank uses the information that feeds the credit risk models implemented and takes in 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 Bank;
- 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 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 Bank'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 Bank historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank with the purpose of reducing any differences between loss estimates and actual loss experience.

According to NCA, loans value should be adjusted on a prudent and righteousness criteria in order to reflect at all time its realisable value. This impairment adjustment must be equal or greater than the determined under the regulation no. 3/95, from the Bank of Portugal, which establishes the minimum reference values for generic and specific provisions.

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

2.5. Other financial assets

Classification

The Bank 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 Bank 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 BES corresponding to financial instruments containing one or more embedded derivatives meet either of the above mentioned conditions, and, in accordance, are classified under the fair value trough 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 Bank'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, 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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

In accordance with NCA, the Bank 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.

2.6. 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 2.5. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

2.7. 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.

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 Bank 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 Bank meet either of the above mentioned conditions and, in accordance, are classified under the fair value trough 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 Bank establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

If the Bank 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.

2.8. 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 Bank 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 Bank, 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.

2.9. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Amounts paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

2.10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.11. Non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), the assets or disposal groups are available for immediate sale and is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal group are measured at the lower of their carrying amount or fair value less costs to sell.

In the course of his current activity of loans concession the Bank incurs the risk of not getting that all loans and advances to customers are reimbursed. In case of loans and advances with mortgage collaterals, the Bank proceeds to their execution receiving buildings and other assets as a recovery for the liquidation of the loan and advances granted. In accordance with the requirements of *Regime Geral da Instituições de Crédito e Sociedades Financeiras* (RGICSF), banks are prevented from acquiring buildings that are not essential to their installation and functioning (article 112.º of the DL 298/92 of 31 of December and subsequent amendments) being able to acquire, however, buildings related with loans and advances reimbursements. These buildings must be sold in a 2 years period time, which may be extended by written authorization of the Bank of Portugal and in the conditions determined this one (art.114.).

It is Bank's objective to immediately dispose all property acquired in exchange for loans. This property is classified as non-current assets held-for-sale and is initially recognised at the lower of its fair value less costs to sell and the carrying amount of the loans. Subsequently, these buildings are measured at the lower of their carrying amount and the corresponding fair values less costs to sell and are not depreciated. Any subsequent write-down of the acquired buildings to fair value is recorded in the income statement.

The valuations of these buildings are performed in accordance with one of the following methodologies, which are applied in accordance with the specific situation of the asset:

a) Market Method

The Market Comparison Criteria takes as reference transaction values of similar and comparable buildings to the building object of study, obtained through market searching carried out in the zone.

b) Income Method

This method estimates the building value based on the capitalization of his net income, discounted for the present moment, through the discounted cash-flows method.

c) Cost Method

This method separates the building value on its basic components: Urbane Ground Value and Urbanity Value; Construction value; and Indirect Costs Value.

The valuations are performed by independent entities specialized in this type of services. The valuation reports are analysed internally with the gauging of processes adequacy, by comparing the sales values with the reevaluated values.

2.12. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. 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 Bank. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of years
Buildings	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 12
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and an impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

2.13. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis during their expected useful lives, which is usually between three to six years.

Costs that are directly associated with the development of identifiable specific software applications by the Bank, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. These costs include employee costs from the BES companies specialised in IT directly associated with the development of the referred software.

All remaining costs associated with IT services are recognised as an expense as incurred.

2.14. Leases

The Bank 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 an amount equal to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, while repayments of principal also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.15. Employee benefits

Pensions

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 heath care benefits are covered by funds that are managed by ESAF – Espírito Santo Fundos de Pensões, S.A.

The pension plans of the Bank 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 Bank 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 46, the Bank 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 Bank, as at 31 December and 30 June each year for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries. The discount rate used in this calculation was determined with reference to market rates associated with high-quality corporate bonds issues, denominated in the currency in which benefits will be paid and with a maturity similar to the expiry date of the plan obligations.

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 share capital in the balance other comprehensive income.

Past services costs associated with the introduction of a defined benefit plan or changes in existing plans, are deferred during the period until they become a vested right.

At each period, the Bank 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 Bank 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 Bank 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.

In preparing these financial statements in accordance with NCA, the recognition of the impact with NCA adoption as at 31 December 2004, that was being amortised until 31 December 2009, with the issue of the Regulation no. 7/2008 of the Bank of Portugal it is now being amortised for an additional period of 3 years until 31 December 2012, except for the medical assistance post employment and changes in mortality tables assumptions, which can be amortised for a period of 7 years.

Additionally, in accordance with the Bank of Portugal Regulation no.12/2005, in preparing financial statements in accordance with NCA, the increase in liabilities resulting from changes in actuarial assumptions related to mortality tables after 1 January 2005, is added to the corridor limit.

Health care benefits

The Bank 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 Bank 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 Bank'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.

In preparing these financial statements in accordance with NCA, the recognition of the impact with NCA adoption as at 31 December 2004, that was being amortised until 31 December 2011, with the issue of the Regulation no. 7/2008 of the Bank of Portugal, it is now being amortised for an additional period of 3 years until 31 December 2014.

Long-term service benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, the Bank has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within the Bank, 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 Bank 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 Bank using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation is determined based on the same methodology described above for pensions.

Annually, the increase in the liability for long-term service premiums, including actuarial gains and losses and past service cost is charged to the income statement.

Share based payments – Share based incentive scheme (SIBA)

BES established a share based payment scheme (SIBA), which ended in December 2010. This plan allowed its employees to acquire BES shares with deferred settlement financed by it. The employees had to hold the shares for a minimum of two to four years after which they could sell the shares in the market and repay the debt. However, the employees had, after the referred period, the option to sell the shares back to BES at acquisition cost.

The shares held by the employees under SIBA were accounted for as treasury stock of BES. This scheme is classified as an equity settlement share based payment in accordance with IFRS 2 – Share based payments.

Each option under the scheme was fair valued on grant date and was recognised as an expense, with a corresponding increase in equity, over the vesting period. Annually the amount recognised as an expense was adjusted to reflect the actual number of options that vest.
The equity instruments granted are not remeasured for subsequent changes in their fair value.

Variable remuneration payment plan (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.

Variable Remuneration Plan in Financial Instruments (PRVIF)

Following the recommendations of the Supervising and Regulatory authorities, on the shareholders General Meeting, held in 6 April 2010 it was approved a new remuneration policy for the Executive Committee members. This policy consists in giving to the Executive Committee members a fixed remuneration, which should represent approximately 45% of the total remuneration, and a variable component representing around 55% of the total remuneration. The variable remuneration shall have two components: one associated with short-term performance and another with medium-term performance. Half of the short-term component must be paid in cash and the remaining 50% should be paid over a three years period, with half of these payments to be made in cash and the remaining through the attribution of shares. The medium-term component has associated a share options program with the exercise of the options set at 3 years from the date of its attribution.

The execution of PRVIF regarding the total remunerations in cash, number of shares and options attributable to each Executive Committee member will be determined by the Remuneration Committee.

Regarding the PRVIF shares attribution modality, shares are attributed to the beneficiaries on a deferred basis over a three years period (1st year: 33%; 2nd year: 33% and 3rd year: 34%) being the attribution subject to the achievement of a Return on Equity (ROE) greater than or equal to 5%.

Regarding the options attribution modality, the attribution of options to the beneficiaries is also performed by the Remuneration Committee, and the exercise price is equal to the single average of the closing prices of BES shares on Euronext during the 20 days preceding the day of attribution of the options, plus 10%. The option can only be exercised at maturity and the beneficiary may choose between the physical settlement or the financial settlement of the options.

PRVIF provides that options under BES shares may be attributed to the bank top management, defined as general managers and advisors to the Board of Directors. The options are granted by the Board of Directors to the beneficiaries in a similar way to the options program for the Executive Committee members.

PRVIF is accounted for in accordance with the applicable standards (IFRS 2 and IAS 19).

Bonus to employee and to the Board of Directors

In accordance with IAS 19 – Employee benefits, the bonus payment to employees and, eventually, to the Board of Directors are recognised in the income statement in the year to which they relate.

2.16. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available-for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, 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.

2.17. Provisions

Provisions are recognised when: (i) the Bank 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 Bank 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 Bank from a contract are lower than the unavoidable costs of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract.

2.18. Interest income and expense

Interest income and expense are recognised in the income statement under interest and similar income and interest expense and similar charges for all non-derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest rate method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

When calculating the effective interest rate, the Bank 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 (i)derivatives for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.19. Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.20. Dividend income

Dividend income is recognised when the right to receive payment is established.

2.21. Segmental reporting

According to paragraph 4 of IFRS 8 – Operating Segments, the Bank is exempted to submit a report on an individual basis by segment, since the individual financial statements are presented together with the consolidated financial statements.

2.22. Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2.23. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with central banks.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

NCA set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Bank's reported results and related disclosure. A broader description of the accounting policies employed by the Bank is shown in Note 2 to the Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Bank's reported results would differ if a different treatment were chosen. Management believes that the choices made by it are appropriate and that the financial statements present the Bank's financial position and results fairly in all material respects.

3.1. Impairment of available-for-sale financial assets

The Bank 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 Bank 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 Bank.

3.2. Fair value of derivatives

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating fair values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model may have produced different financial results from the ones reported.

3.3. Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.4, in accordance with the minimum reference values for generic and specific provisions, determined under the regulation no. 3/95, from the Bank of Portugal.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, among other factors, are considered in making this evaluation.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the income statement of the Bank.

3.4 Held-to-maturity investments

The Bank 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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 Bank. The use of different assumptions and estimates could have an impact on the income statement of the Bank.

3.5. Income taxes

The Bank is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

The Tax Authorities are entitled to review the Bank' determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

3.6. 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 – 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 expense and similar charges						
Interest from loans and advances	1 766 582	16 583	1 783 165	1 425 800	21 220	1 447 020
Interest from financial assets at fair value through profit or loss	-	50 998	50 998	-	170 715	170 715
Interest from deposits with banks	229 297	2 572	231 869	160 564	16 163	176 727
Interest from available-for-sale financial assets	368 896	-	368 896	157 471	-	157 471
Interest from derivatives for risk management purposes	41 948	-	41 948	50 536	-	50 536
Interest from held-to-maturity financial assets	188 800	289 883	478 683	-	685 791	685 791
Other interest and similar income	10 632	-	10 632	9 831	-	9 831
	2 606 155	**360 036**	**2 966 191**	**1 804 202**	**893 889**	**2 698 091**
Interest expense and similar charges						
Interest from deposits from central banks and other banks	498 297	15 432	513 729	330 067	8 403	338 470
Interest from debt securities	397 266	103 155	500 421	446 357	158 756	605 113
Interest from amounts due to customers	787 847	33 167	821 014	312 636	60 177	372 813
Interest from derivatives for risk management purposes	71 680	-	71 680	135 848	-	135 848
Interest from subordinated debt	153 074	252 335	405 409	-	583 488	583 488
	1 908 164	**404 089**	**2 312 253**	**1 224 908**	**810 824**	**2 035 732**
	697 991	**(44 053)**	**653 938**	**579 294**	**83 065**	**662 359**

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.3 and 2.18, interests from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policy described in Notes 2.4, 2.5 and 2.7.

NOTE 5 – DIVIDEND INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Dividends from subsidiaries and associates	372 070	293 622
Dividends from available-for-sale financial assets	8 410	25 461
	380 480	319 083

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	327 244	337 035
From guarantees granted	193 904	166 345
From transactions with securities	5 520	6 077
From commitments assumed with third parties	43 314	42 808
Other fee and commission income	55 704	74 121
	625 686	626 386
Fee and commission expense		
For banking services rendered by third parties	61 495	60 284
From transactions with securities	9 688	10 190
From guarantees received	71 232	57 418
Other fee and comission expenses	13 519	18 515
	155 934	146 407
	469 752	479 979

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						
Issued by government and public entities						
Issued by government and public entities	7 303	23 560	(16 257)	67 666	129 208	(61 542)
Issued by other entities	15 915	17 591	(1 676)	12 128	12 981	(853)
Shares	1 067	477	590	382	5 478	(5 096)
Other variable income securities	182	557	(375)	5 023	9 116	(4 093)
	24 467	**42 185**	**(17 718)**	**85 199**	**156 783**	**(71 584)**
Derivative financial instruments						
Exchange rate contracts	682 834	741 966	(59 132)	1 199 309	1 337 626	(138 317)
Interest rate contracts	4 057 793	4 018 899	38 894	4 856 205	4 878 669	(22 464)
Equity/Index contracts	1 503 031	1 537 295	(34 264)	918 903	931 636	(12 733)
Credit default contracts	671 880	669 477	2 403	468 365	451 600	16 765
Other	60 695	24 557	36 138	367 364	377 303	(9 939)
	6 976 233	**6 992 194**	**(15 961)**	**7 810 146**	**7 976 834**	**(166 688)**
Financial assets and liabilities at fair value through profit and loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	217	8	209
Issued by other entities	95 055	108 488	(13 433)	147 194	204 118	(56 924)
Shares	5 027	357	4 670	1 064	3	1 061
Other variable income securities	76 382	343 179	(266 797)	147 523	193 614	(46 091)
	176 464	**452 024**	**(275 560)**	**295 998**	**397 743**	**(101 745)**
Other financial assets (1)						
Deposits with banks	-	-	-	479	715	(236)
Loans and advances to customers	24 331	26 463	(2 132)	24 984	27 196	(2 212)
	24 331	**26 463**	**(2 132)**	**25 463**	**27 911**	**(2 448)**
Financial liabilities (1)						
Deposits from banks	31 444	57 878	(26 434)	164 702	117 697	47 005
Due to customers	306 737	265 320	41 417	79 036	105 555	(26 519)
Debt securities issued	38 607	51 741	(13 134)	103 067	60 533	42 534
Other subordinated debt	-	-	-	11 877	14 783	(2 906)
	376 788	**374 939**	**1 849**	**358 682**	**298 568**	**60 114**
	577 583	**853 426**	**(275 843)**	**680 143**	**724 222**	**(44 079)**
	7 578 283	**7 887 805**	**(309 522)**	**8 575 488**	**8 857 839**	**(282 351)**

(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 48.1 million (31 December 2010: positive effect of euro 78.7 million) related to the change in fair value of financial liabilities designated at fair value through profit or loss attributable to the entity's credit risk component.

In accordance with the accounting policies followed by the Bank, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instruments at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined on a valuation technique, may differ from the transaction price, namely due to the existence of a built-in fee, originating a *day one profit*.

The Bank 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 Bank 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 2 196 thousand (31 December 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	12 480	10 490	1 990	15 315	19 360	(4 045)
Issued by other entities	9 699	45 898	(36 199)	10 270	14 786	(4 516)
Shares	80 590	35 515	45 075	349 692	13 987	335 705
Other variable income securities	9 071	3 703	5 368	11 010	7 744	3 266
	111 840	95 606	16 234	386 287	55 877	330 410

During the year ended 31 December 2011, BES sold in the stock exchange market at market prices 11.9 million shares of Banco Bradesco, having realised a total gain of euro 63.1 million.

During the year ended 31 December 2010, BES sold in the stock exchange market at market prices 52.5 million shares of Banco Bradesco, having realised a total gain of euro 282.2 million.

Related party transactions are described in Note 41.

NOTE 9 – NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011			31.12.2010		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	1 118 844	1 118 590	254	1 311 405	1 327 265	(15 860)
	1 118 844	1 118 590	254	1 311 405	1 327 265	(15 860)

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 2.2.

NOTE 10 – NET GAINS / LOSSES FROM THE SALE OF OTHER ASSETS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Loans and advances to customers	(50 427)	(7 846)
Available-for-sale-financial assets	(4 719)	(12 956)
Other	5 146	8 701
	(50 000)	(12 101)

Under the strategy of reducing assets (deleverage), the Bank sold euro 1.3 billion of loans during the year ended 31 December 2011, having recorded in the income statement a loss of euro 42.0 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)		
Other services	10 045	13 550
Non recurring gains on credit operations	26 439	19 098
Direct and indirect taxes	(35 205)	(5 008)
Contributions to the Deposits Guarantee Fund	(4 673)	(4 199)
Membership and donations	(4 259)	(4 931)
Gains/ (losses) on repurchase of BES debt securities	556 008	(4 092)
Loss arising from the transfer to the Social Security of the liabilities with pensions in payment [(a)]	(105 744)	-
Other	(18 951)	9 182
	423 660	23 600

[(a)] See note 13 - Employee Benefits

Direct and indirect taxes include an amount of euro 28.7 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 21.0 million related with the Investors Compensation Scheme.

NOTE 12 – STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Wages and salaries	273 483	294 238
Remuneration	273 105	290 802
Long-term service benefits (see Note 13)	378	3 436
Mandatory social charges	71 827	51 503
Pension costs (see Note 13)	18 091	37 938
Other costs	9 414	8 800
	372 815	392 479

Other costs includes the amount of euro 1 792 thousands related with the Variable remuneration payment plan on financial instruments (PRVIF) and euro 1 411 thousands related with the variable remuneration payment plan (PPRV) (31 December 2010: euro 3 387 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 key management personnel are presented as follows:

(in thousands of euro)

	Board of Directors			Audit Commitee	Other Key Management	Total
	Executive Commission	Other	Total			
31 December 2011						
Salaries and other short-term benefits	4 621	134	4 755	739	3 139	8 633
Bonus	2 372	397	2 769	-	421	3 190
Sub total	**6 993**	**531**	**7 524**	**739**	**3 560**	**11 823**
Pension costs	6 011	60	6 071	2	661	6 734
Long service benefits and other	210	-	210	-	151	361
Total	**13 214**	**591**	**13 805**	**741**	**4 372**	**18 918**
31 December 2010						
Salaries and other short-term benefits	4 629	134	4 763	739	3 112	8 614
Bonus	3 810	431	4 241	-	922	5 163
Sub total	**8 439**	**565**	**9 004**	**739**	**4 034**	**13 777**
Pension costs	4 172	59	4 231	17	639	4 887
Long service benefits and other	51	-	51	-	109	160
Total	**12 662**	**624**	**13 286**	**756**	**4 782**	**18 824**

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 to its key management personnel, amounted to euro 16 117 thousand and euro 16 495 thousand, respectively.

The number of the Bank employees, per professional category, is analysed as follows:

	31.12.2011	31.12.2010
Senior management	588	590
Management	845	862
Specific functions	2 640	2 628
Administrative functions and other	2 631	2 670
	6 704	6 750

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 31st 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%	-7.32%	2.17%
Discount rate	5.50%	5.50%	-	-
Demographic assumptions and valuation methods				
Mortality table				
Men	TV 73/77 (ajustada)			
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	5 628	5 909
Pensioners	5 638	5 616
TOTAL	**11 266**	**11 525**

Considering the change in the accounting policy made during the year ended 31 December 2011, 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	(339 919)	(1 274 038)
Employees	(589 572)	(755 599)
	(929 491)	(2 029 637)
Health-care benefit obligation		
Pensioners	(47 667)	(69 311)
Employees	(48 281)	(40 520)
	(95 948)	(109 831)
Total obligations	(1 025 439)	(2 139 468)
Coverage		
Fair value of plan assets	1 116 693	2 139 598
Net assets in balance sheet (see Note 29)	91 254	130
Acumulated actuarial deviations recognised in other comprehensive income	897 170	929 432
Transitory regime	26 300	41 646

In accordance with the accounting policy described in Note 2.15, the Bank liability with pensions is calculated semi-annually.

In accordance with the accounting policy described in Note 2.15 and following the requirements of IAS 19 – Employees benefits, the Bank 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:

(thousands of euros)

	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	2 029 637	109 831	2 139 468	1 960 721	104 772	2 065 493
Service cost	13 141	1 426	14 567	32 714	2 010	34 724
Interest cost	107 239	6 040	113 279	106 398	5 705	112 103
Plan participants' contribution	3 062	-	3 062	3 029	-	3 029
Actuarial (gains) / losses:	-	-	-	-	-	
- changes in actuarial assumptions	(171 123)	(11 251)	(182 374)	-	-	-
- experience adjustments	(110 785)	3 251	(107 534)	21 627	3 251	24 878
Pensions paid by the fund	(105 438)	(5 930)	(111 368)	(104 160)	-	(104 160)
Benefits paid by the Group	-	-	-	-	(5 907)	(5 907)
Loss arising from the transfer to the Social Security of the liabilities with pensions in payment	(843 036)	-	(843 036)	-	-	-
Exchange differences and other	6 794	(7 419)	(625)	9 308	-	9 308
Defined benefit obligation at the end of the year	929 491	95 948	1 025 439	2 029 637	109 831	2 139 468

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 843.0 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 Bank to the State amounted to euro 948.8 million, which led to the recognition in 2011 in the income statement of cost in the amount of euro 105.7 million, corresponding to the differential of the discount rates mentioned above.

Of the total payable amount (euro 948.8 million), about euro 843.0 million were borne by the Pension Fund and euro 105.7 million directly by the Bank. 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 14.5 million (31 December 2010: euro 16.9 million) and an increase in costs (service cost and interest cost) of euro 1.0 million (31 December 2010: euro 1.2 million).

The change in fair value of the plan assets for the years ended 31 December 2011 and 2010 is analysed as follows:

(in thousand of euro)

	31.12.2011	31.12.2010
Fair value of plan assets at the beginning of the year	**2 139 598**	**2 137 129**
Actual return on plan assets	(148 049)	42 396
Bank contributions	76 020	55 574
Plan participants' contributions	3 062	3 029
Pensions paid by the fund	(111 368)	(110 067)
Loss arising from the transfer to the Social Security of the liabilities with pensions in payment	(843 036)	-
Exchange differences and other	466	11 537
Fair value of plan assets at the end of the year	**1 116 693**	**2 139 598**

(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	350 187	738 657
Bonds	113 853	410 374
Real estate assets	657 856	477 677
Other	374 163	512 890
Amounts payable to the Social Security	(379 366)	-
Total	1 116 693	2 139 598

The real estate assets rented to BES and securities issued by the Bank which are part of the plan assets are analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Shares	-	37 895
Bonds	-	1 006
Real estate assets	211 458	162 781
Total	211 458	201 682

As at 31 December 2010, the shares held by the pension fund correspond to 13.2 million shares of BES.

During the period ended 31 December 2011 the Bank sold 18 520 and 4 830 units of Fungepi Fund and Fungere Fund to the Bank 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 41).

The changes in the unrecognised net actuarial losses are analysed as follows:

(in thousand of euro)

	31.12.2011	31.12.2010
Unrecognised net actuarial losses at the beginning of the year	929 432	838 061
Actuarial (gains) / losses		
- changes in actuarial assumptions	(182 374)	-
- experience adjustments	150 270	91 371
Other	(158)	-
Unrecognised net actuarial losses at the end of the year	897 170	929 432

The net periodic benefit cost can be analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
At the beginning of the year	**41 646**	**56 990**
Amortisation through reserves	(15 346)	(15 344)
At the end of the year	**26 300**	**41 646**

The changes in the assets/ (liabilities) recognised in the balance sheet is analysed as follows:

(in thousand of euro)

	31.12.2011	31.12.2010
Service cost	14 567	34 724
Interest cost	113 279	112 103
Expected return on plan assets	(109 755)	(108 889)
Net benefit cost	**18 091**	**37 938**

The changes in the assets/(liabilities) recognised in the balance sheet are analysed as follows:

(in thousand of euro)

	31.12.2011	31.12.2010
At the beginning of the year	**41 776**	**128 628**
Net periodic benefit cost	(18 091)	(37 938)
Charge-off of provisions	32 265	(91 371)
Amortisation of transitional rules (reserves)	(15 346)	(15 344)
Contributions of the year and pensions paid by the Bank	76 020	55 574
Other	930	2 227
At the end of the year	**117 554**	**41 776**

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	(929 491)	(2 029 637)	(1 960 721)	(1 904 807)	(1 918 221)
Health-care benefits	(95 948)	(109 831)	(104 772)	(103 408)	(107 297)
	(1 025 439)	(2 139 468)	(2 065 493)	(2 008 215)	(2 025 518)
Fair value of plan assets	1 116 693	2 139 598	2 137 129	2 002 889	2 180 186
(Un)/over funded liabilities	**91 254**	**130**	**71 636**	**(5 326)**	**154 668**
(Gains)/losses arinsing from experience adjustments arising on plan liabilities					
Pension plans	(110 785)	21 627	50 894	23 994	43 061
Health-care benefits	3 251	3 251	1 622	53	(1 813)
(Gains)/losses arinsing from experience adjustments arising on plan assets	257 804	66 493	(87 618)	712 145	(158 566)

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 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 a)	3 937 250	6 524 516
Reference price a)	11.00	6.64
Interest rate	5.22%	
Volatility	33.5%	
Inicial fair value of the plan (in thousands of eurc	9 821	

[a] Includes the adjustment of the diluitive effect arising from the capital increase

In accordance with the accounting policy described in Note 2.15, the initial fair value of the PPRV, in the amount of euro 9 821 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 Bank recognised during 2011, as staff costs, the amount of euro 1 411 thousand (31 December 2010: euro 3 387 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 PRVIF
Inicial reference date	12-04-2011
Final reference date	31-03-2014
Rights granted to employees	2 250 000
Reference price (in EUR)	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 Bank 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 2.15, for employees that achieve certain years of service, the Bank pays long 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, the Bank liabilities regarding these benefits amount to euro 24 947 thousand (31 December 2010: euro 26 969 thousand) (see Note 37). The costs incurred in the year with long-term service benefits amounted to euro 378 thousand (31 December 2010: euro 3 436 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	48 016	50 216
Advertising costs	26 873	35 718
Communication costs	24 859	25 907
Maintenance and related services	13 985	14 454
Travelling and representation costs	17 206	23 522
Water, energy and fuel	8 859	8 977
Transportation	7 519	7 821
Consumables	3 889	4 189
IT services	56 889	56 349
Temporary work	5 753	6 420
Independent work	5 055	5 224
Electronic payment systems	11 999	12 366
Advisory services	12 381	14 615
Legal costs	16 822	18 494
Consultants and external auditors	6 791	3 521
Security and surveillance	4 089	3 964
Other costs	51 214	53 161
	322 199	**344 918**

The balance other costs includes, among others, costs from expert evaluation services, call centre, and cost with services made by the “Agrupamento Complementar de Empresas (ACE)”.

The outstanding lease instalments related to the non-cancellable operational leasing contracts were as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 1 year	7 266	6 362
1 to 5 years	10 779	7 718
	18 045	**14 080**

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	907	966
Audit related fees	927	542
Tax consultancy services	430	369
Other services	544	834
Total invoiced services	**2 808**	**2 711**

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 year.

(in thousands of euro)

	31.12.2011	31.12.2010
Profit attributable to the equity holders of the Bank [(1)]	(39 905)	298 804
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)	-0.03	0.26

[(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	202 699	190 490
Deposits at central banks		
Bank of Portugal	108 744	112 037
Other central banks	169 928	186 150
	278 672	298 187
	481 371	**488 677**

The deposits at Central Banks include mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements, in the amount of euro 108 744 thousand (31 December 2010: euro 112 037 thousand). According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. As at 31 December 2011, these deposits have earned interest at an average rate of 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 565 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	141 122	177 696
Repayable on demand	135 818	43 746
	276 940	221 442
Deposits with banks abroad		
Repayable on demand	64 758	41 544
	64 758	41 544
	341 698	262 986

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	123 852	594 111
Issued by other entities	6 037	29 550
Shares	12 248	1 916
	142 137	625 577
Derivatives		
Derivative financial instruments with positive fair value	1 640 902	1 451 557
	1 783 039	2 077 134
Financial liabilities held for trading		
Derivatives		
Derivative financial instruments with negative fair value	1 605 217	1 538 108
Short selling	-	120 553
	1 605 217	1 658 661

Short selling represents securities sold by the Bank, which had been acquired under a purchase transaction with a resale agreement. In accordance with the accounting policy described in Note 2.6, securities purchased under agreements to resell are not recognized in the balance sheet. If those securities are sold, the Bank recognizes a financial liability equivalent to the fair value of assets that must be returned under the resale agreement.

In accordance with the accounting policy described in Note 2.5, securities held for trading are those which are bought to be traded in the short-term, regardless of their maturity.

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	3 435	390 029
3 to 12 months	118 132	5 181
1 to 5 years	7 109	174 325
More than 5 years	1 213	50 154
Undetermined	12 248	5 888
	142 137	**625 577**

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
Bonds and other fixed income securities						
Issued by government and public entities	123 852	-	123 852	594 111	-	594 111
Issued by other entities	3 984	2 053	6 037	25 276	4 274	29 550
Shares	12 248	-	12 248	1 916	-	1 916
	140 084	**2 053**	**142 137**	**621 303**	**4 274**	**625 577**

As at 31 December 2011, the exposure to public debt from peripheral Eurozone countries is presented in Note 44 – Risk Management.

The securities pledged as collateral by the Bank are analysed in Note 40.

As at 31 December 2010 and 2009, 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	762 472	16 715	13 609	917 198	39 113	24 230
- sell	759 373			903 514		
Currency Swaps						
- buy	2 211 621	11 796	11 502	3 796 442	9 782	9 977
- sell	2 200 959			3 808 087		
Currency Futures [a]	474	-	-	-	-	-
Currency Interest Rate Swaps						
- buy	181 919	38 131	25 975	1 591 672	131 310	110 102
- sell	170 685			1 570 853		
Currency Options	2 515 101	85 600	83 836	5 044 392	120 040	153 087
	8 802 604	152 242	134 922	17 632 158	300 245	297 396
Interest rate contracts						
Forward Rate Agreements	380 000	1 047	1 982	1 124 000	408	197
Interest Rate Swaps	42 814 469	1 214 107	1 187 902	53 309 662	896 514	913 160
Swaption - Interest Rate Options	2 406 936	5 003	5 157	2 373 426	4 893	3 502
Interest Rate Caps & Floors	3 374 871	31 106	27 772	4 854 709	42 948	32 598
Bonds Options	-	-	-	29 458 165	-	-
	48 976 276	1 251 263	1 222 813	91 119 962	944 763	949 457
Equity / index contracts						
Equity / Index Swaps	763 733	31 145	63 432	489 205	16 732	50 581
Equity / Index Options	2 642 705	63 510	101 413	4 003 843	135 817	197 859
Equity / Index Futures [a]	10 016	-	-	311 769	-	-
Future Options [a]	32 089	-	-	5 242 778	-	-
	3 448 543	94 655	164 845	10 047 595	152 549	248 440
Credit default contracts						
Credit Default Swaps	3 380 947	142 742	82 637	3 290 772	54 000	42 815
Total	64 608 370	1 640 902	1 605 217	122 090 487	1 451 557	1 538 108

a) Derivatives traded in organized markets, whose fair value is settled daily through the margin accounts.

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	8 450 988	6 114	54 643 562	13 525
3 to 12 months	9 852 768	(58 092)	8 012 141	(38 726)
1 to 5 years	16 898 222	21 345	25 257 256	(68 535)
More than 5 years	29 406 392	66 318	34 177 528	7 185
	64 608 370	35 685	122 090 487	(86 551)

NOTE 19 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

(in thousand of euro)

	31.12.2011	31.12.2010
Bonds and other fixed income securities		
Issued by other entities	178 140	655 730
Shares and other variable income securities	1 791 191	1 124 441
	1 969 331	1 780 171

In light of IAS 39 and in accordance with the accounting policy described in Note 2.5, the Bank designated these financial assets as 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	385 529	124 171
3 to 12 months	60 725	62 327
1 to 5 years	1 236 325	735 747
More than 5 years	56 741	695 267
Undetermined	230 011	162 659
	1 969 331	1 780 171

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	355	177 785	178 140	196 508	459 222	655 730
Shares and other variable income securities	13 718	1 777 473	1 791 191	15 143	1 109 298	1 124 441
	14 073	**1 955 258**	**1 969 331**	**211 651**	**1 568 520**	**1 780 171**

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	2 905 936	9	(123 705)	-	2 782 240
Issued by other entities	10 794 469	34 518	(145 738)	(8 775)	10 674 474
Shares	297 698	25 740	(10 004)	(95 093)	218 341
Other variable income securities	619 980	8 776	(3 083)	(25 461)	600 212
Balance as at 31 December 2010	**14 618 083**	**69 043**	**(282 530)**	**(129 329)**	**14 275 267**
Bonds and other fixed income securities					
Issued by government and public entities	1 742 165	270	(26 212)	(1)	1 716 222
Issued by other entities	9 372 403	15 128	(69 062)	(15 045)	9 303 424
Shares	315 316	91 664	(15 443)	(71 795)	319 742
Other variable income securities	770 487	23 633	(5 809)	(33 437)	754 874
Balance as at 31 December 2009	**12 200 371**	**130 695**	**(116 526)**	**(120 278)**	**12 094 262**

[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 2.5, the Bank assesses periodically whether there is objective evidence of impairment on the available-for-sale financial assets, following the judgment criteria's described in Note 3.1.

As at 31 December 2011, the exposure to public debt from peripheral Eurozone countries is presented in Note 44 – Risk Management.

The securities pledged as collateral by BES are analysed in Note 40. In December 2011, the Bank performed a commercial paper securitisation operation (available-for-sale assets) in the amount of euro 306.4 million. These assets were not derecognised from the balance sheet as the Bank has not transferred substantially all risks and rewards (See Note 42).

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	120 278	103 719
Charge for the year	51 301	24 805
Charge off	(38 100)	(10 620)
Write back for the year	(5 661)	(3 825)
Exchange differences and other	1 511	6 199
Balance at the end of the year	**129 329**	**120 278**

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	4 657 687	2 315 899
3 to 12 months	1 492 554	2 856 757
1 to 5 years	1 552 075	486 325
More than 5 years	5 750 243	5 357 236
Undetermined	822 708	1 078 045
	14 275 267	**12 094 262**

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		
EDP - Energias de Portugal	60 049	-	(3 768)	-	56 281
Banque Marocaine du Commerce Extérieur	2 376	5 454	-	(348)	7 482
	62 425	**5 454**	**(3 768)**	**(348)**	**63 763**

(in thousands of euro)

31.12.2010

Description	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Banco Bradesco	64 593	71 423	-	-	136 016
Banque Marocaine du Commerce Extérieur	2 290	7 293	-	(344)	9 239
	66 883	**78 716**	**-**	**(344)**	**145 255**

During the year ended 31 December 2011, the Bank sold at market prices 11.9 million ordinary shares of Bradesco. The realised net loss following these transactions was euro 63.1 million (see Note 8).

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
Bonds and other fixed income securities						
Issued by government and public entities	2 782 240	-	2 782 240	1 716 222	-	1 716 222
Issued by other entities	609 199	10 065 275	10 674 474	1 585 246	7 718 178	9 303 424
Shares	89 509	128 832	218 341	202 999	116 743	319 742
Other variable income securities	109 844	490 368	600 212	86 169	668 705	754 874
	3 590 792	10 684 475	14 275 267	3 590 636	8 503 626	12 094 262

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		
Loans	731 198	42 235
Deposits	1 371 921	2 698 939
Very short term deposits	80 933	57 028
Other loans and advances	193	65 950
	2 184 245	2 864 152
Loans and advances to banks abroad		
Deposits	3 441 128	4 162 886
Very short term deposits	1 454 219	761 047
Loans	812 388	643 810
Other loans and advances	37 035	40 238
	5 744 770	5 607 981
Impairment losses	(190)	(35)
	7 928 825	8 472 098

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 Bank 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 Bank 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	7 555 935	6 808 342
3 to 12 months	150 695	715 298
1 to 5 years	166 556	906 848
More than 5 years	55 642	41 384
Undetermined	187	261
	7 929 015	**8 472 133**

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	35	256
Charge for the year	531	156
Write back for the year	(383)	(392)
Exchange differences and other	7	15
Balance at the end of the year	**190**	**35**

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		
Commercial lines of credits	5 337 896	4 794 689
Loans	12 527 689	12 783 529
Discounted bills	509 282	548 773
Factoring	1 451 226	1 566 142
Overdrafts	27 021	24 399
Finance leases	2 937 632	3 200 046
Other loans	308 582	149 949
Retail		
Mortgage loans	7 638 793	7 758 892
Consumer and other loans	1 786 395	2 139 725
	32 524 516	32 966 144
Foreign loans		
Corporate		
Loans	3 906 817	4 419 346
Commercial lines of credits	1 035 795	1 227 428
Overdrafts	38 981	28 335
Discounted bills	99 780	174 552
Finance leases	67 019	182 281
Factoring	23 036	50 802
Other loans	370 998	938 736
Retail		
Mortgage loans	775 521	776 777
Consumer and other loans	406 703	435 416
	6 724 650	8 233 673
Overdue loans and interest		
Up to 3 months	127 030	64 181
From 3 months to 1 year	280 016	229 728
From 1 to 3 years	640 436	518 582
More than 3 years	341 711	224 361
	1 389 193	1 036 852
	40 638 359	42 236 669
Impairment losses	(1 522 472)	(1 140 856)
	39 115 887	41 095 813

In 2011 there were two securitization transactions: loans to households (Lusitano Finance Nº3) with credits from the BES in the amount of euro 658 million and other of corporate loans (IM BES Empresas 1) with credits in the amount of euro 485 million from BES Spanish branch. During 2010 it was set-up two securitization operations of company loans (Lusitano Leverage Finance Nº1) which includes loans in the amount of euro 382 million from BES London Branch, BESI and ES Vénétie and other of company loans and commercial paper in the amount of euro 1 349 million (Lusitano SME Nº2). These loans were not derecognised considering that the group has not transferred substantially all the risks and rewards of ownership.

As at 31 December 2011, loans and advances includes euro 5 305 886 thousand (31 December 2010: euro 4 963 051 thousand) of mortgage loans that collateralise the issue of covered bonds (see Note 33).

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	6 808 674	3 306 030
3 to 12 months	4 960 699	6 650 190
1 to 5 years	8 414 959	9 202 395
More than 5 years	19 064 834	22 041 198
Undetermined	1 389 193	1 036 856
	40 638 359	**42 236 669**

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	1 140 856	935 942
Charge for the year	648 590	366 436
Charge off	(156 140)	(97 348)
Write back for the year	(110 877)	(64 208)
Exchange differences	43	34
Balance at the end of the year	**1 522 472**	**1 140 856**

As at 31 December 2011, loans and advances includes euro 175 001 thousand of restructured loans (31 December 2010: euro 141 020 thousand). These loans correspond, in accordance with definition of the Bank of the Portugal, to loans previously overdue, which through a restructuring process are considered as performing loans.

Additionally, as at 31 December 2011, the Bank has a provision for general banking risks in the amount of euro 433 450 thousand (31 December 2010: euro 449 606 thousand), which in accordance to NCA is presented as a liability (see Note 34).

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	2 405 700	2 648 123
Variable interest rate	38 232 659	39 588 546
	40 638 359	42 236 669

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 losses	(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	147 545	190 386
Issued by other entities	714 491	1 527 371
	862 036	1 717 757
Impairment losses	(31 959)	(48 489)
	830 077	1 669 268

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	24 426	84 490
3 to 12 months	34 212	155 868
1 to 5 years	244 212	583 205
More than 5 years	559 186	894 194
	862 036	1 717 757

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	48 489	34 209
Charge for the year / (Write back for the year)	15 548	45 850
Charge off	(31 928)	(30 702)
Exchange differences and other	(148)	(868)
Balance at the end of the year	**31 959**	**48 489**

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
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	147 545	-	147 545	190 386	-	190 386
Issued by other entities	190 137	492 395	682 532	822 263	656 619	1 478 882
	337 682	492 395	830 077	1 012 649	656 619	1 669 268

During the year ended 31 December 2008, the Bank has reclassified non-derivative financial assets to the held-to-maturity investments category in the amount of euro 409 million, as follows:

(in thousands of euro)

	Acquisition cost	Reclassification date			Market value as at 31 December 2008
		Book value	Fair value reserve		
			Positive	Negative	
Bonds and other fixed income securities	433 247	408 987	366	(24 626)	380 071

If the reclassification of financial assets had not occurred, the impact in the financial statements of the Bank would be as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Available-for-sale financial assets		
Effect on the fair value reserve	(14 856)	5 096
Tax effect	4 308	(1 478)
	(10 548)	3 618

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 Bank 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 Bank 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 BES 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
533 113	(4 922)	(50)	528 141	533 113	(10 845)	(50)	522 218

[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	231 101	256 822	487 923	339 359	160 185	499 544
Derivatives for risk management purposes - liabilities	(107 398)	(48 343)	(155 741)	(200 163)	(77 244)	(277 407)
	123 703	208 479	332 182	139 196	82 941	222 137
Fair value component of assets and liabilities being hedged						
Financial assets						
Loans and advances to customers	17 798	-	17 798	19 826	-	19 826
	17 798	-	17 798	19 826	-	19 826
Financial liabilities						
Deposits from banks	(55 240)	108 756	53 516	(28 409)	107 941	79 532
Due to customers	(838)	18 669	17 831	(3 323)	(20 748)	(24 071)
Debt securities issued	(28 953)	(7 104)	(36 057)	(26 984)	(9 670)	(36 654)
Subordinated debt	-	-	-	(863)	-	(863)
	(85 031)	120 321	35 290	(59 579)	77 523	17 944
	(67 233)	120 321	53 088	(39 753)	77 523	37 770

As mentioned in the accounting policy described in Note 2.3, 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	Hedge 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	1 038 105	(19 167)	(38 087)	17 798	(2 132)
Interest Rate Swap	Deposits from banks	Interest rate	184 000	59 385	28 201	(55 240)	(26 832)
Interest Rate Swap	Due to customers	Interest rate	4 417	1 978	(1 060)	(838)	918
Interest Rate Swap	Debt security issued	Interest rate	4 732 931	81 507	46 655	(28 953)	(13 570)
			5 959 453	**123 703**	**35 709**	**(67 233)**	**(41 616)**

(1) Includes accrued interest
(2) Attributable to the hedged risk

(in thousands of euro)

31.12.2010							
Derivative	Hedge 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	913 664	(17 710)	729	19 826	(2 212)
Interest Rate Swap/Currency Interest Rate Swap	Deposits from banks	Interest rate and FX	194 000	31 305	5 423	(28 409)	(5 284)
Interest Rate Swap	Due to customers	Interest rate	125 417	7 932	(2 207)	(3 323)	2 227
Interest Rate Swap/Currency Interest Rate Swap	Debt security issued	Interest rate and FX	9 912 123	116 926	(44 523)	(26 984)	43 996
Currency Interest Rate Swap	Subordinated loans	Interest rate	276 104	743	(5 382)	(863)	(2 906)
			11 421 308	**139 196**	**(45 960)**	**(39 753)**	**35 821**

(1) Includes accrued interest
(2) Attributable to the hedge 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 5.9 million (31 December 2010: profit of euro 10.1 million) and was recognised in the income statement. BES 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 2.4, 2.5 and 2.8 and that the Bank 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:

(thousands of euro)

31.12.2011								
		Derivative			Assets/liabilities associated			
Derivative	Financial assets/liabilities economically hedged	Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date
	Liabilities							
Interest Rate Swap	Deposits from banks	234 247	73 441	34 422	108 756	398	155 576	264 332
Interest Rate Swap	Due to customers	5 910 812	129 526	45 427	18 669	40 499	7 219 174	7 237 843
Index Swap	Debt security issued	3 531	1 739	8	10	87	2 344	2 302
Interest Rate Swap/FX Forward	Debt security issued	1 545 495	3 773	(472)	(7 114)	459	100 998	93 884
		7 694 085	**208 479**	**79 385**	**120 321**	**41 443**	**7 478 092**	**7 598 361**

(thousands of euro)

31.12.2010								
		Derivative			Assets/liabilities associated			
Derivative	Financial assets/liabilities economically hedged	Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date
FX Swap	Loans and advances to banks	-	-	13	-	(236)	-	-
Interest Rate Swap	Deposits from banks	234 247	41 376	25 618	108 610	52 417	138 798	264 357
FX Swap	Deposits from banks	391 395	667	128	(669)	(128)	392 064	391 395
Interest Rate Swap	Due to customers	3 425 812	47 693	17 899	(20 748)	(28 746)	3 773 194	3 785 974
Index Swap	Debt security issued	3 531	1 729	(101)	(85)	(126)	2 548	2 462
Interest Rate Swap/FX Forward	Debt security issued	1 495 436	(9 256)	1 667	(9 539)	(1 121)	86 023	92 286
Credit Default Swap	Debt security issued	21 050	733	11	(46)	(215)	10 012	10 000
		5 571 471	**82 941**	**45 236**	**77 523**	**21 846**	**4 402 638**	**4 546 474**

As at 31 December 2011, the fair value component of the financial liabilities at fair value through profits and losses, attributable to the Bank's own credit risk, amounts to euro 192.4 thousand of cumulative profits (31 December 2010: euro 144.2 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	2 970 817	29 833	5 451 102	39 006
3 to 12 months	2 659 545	51 340	683 883	3 021
1 to 5 years	6 812 915	115 218	9 897 302	100 532
More than 5 years	1 210 261	135 791	960 491	79 578
	13 653 538	332 182	16 992 778	222 137

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
Non-current assets held for sale		
Property	934 176	609 147
Equipment	2 203	1 840
Others Properties	11 882	8 380
	948 261	619 367
Impairment losses	(180 519)	(89 781)
	767 742	529 586

The amounts presented refer to investments in companies controlled by the Bank, which have been acquired exclusively with the purpose of being sold in the short term, and assets acquired in exchange for loans and discontinued branches available for immediate sale. As at 31 December 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 Bank recognised an impairment loss amounting to euro 7 699 thousand (31 December 2010: euro 3 924 thousand).

The changes occurred in impairment losses of property held for sale are presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	89 781	49 772
Charge for the year	125 773	58 378
Charge off	(30 941)	(17 403)
Write back for the year	(4 095)	(965)
Exchange differences and other	1	(1)
Balance at the end of the year	**180 519**	**89 781**

The changes occurred in non-current assets held for sale during 2011 and 2010, are presented as follows:

(thousands of euro)

	31.12.2011	31.12.2010
Balance at the beginning of the year	619 367	398 512
Additions	511 681	457 575
Sales	(189 527)	(236 200)
Other	6 740	(520)
Balance at the end of the year	**948 261**	**619 367**

NOTE 26 – PROPERTY AND EQUIPMENT

As at 31 December 2011 and 2010 this balance is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Property		
For own use	307 521	311 702
Improvements in leasehold property	215 096	214 302
	522 617	526 004
Equipment		
Computer equipment	257 579	256 786
Fixtures	128 097	123 486
Furniture	109 016	106 091
Security equipment	33 566	32 308
Office equipment	30 678	30 992
Motor vehicles	1 275	1 899
Other	372	372
	560 583	551 934
Work in progress		
Improvements in leasehold property	1 392	1 426
Property for own use	18 627	353
Equipment	952	2 190
Other	43	120
	21 014	4 089
	1 104 214	1 082 027
Accumulated depreciation	(732 267)	(702 486)
	371 947	379 541

The movement in this balance was as follows:

(in thousands of euro)

	Property	Equipment	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2009	524 955	539 635	5 726	1 070 316
Acquisitions	4 979	12 568	11 726	29 273
Disposals	(5 761)	(5 908)	(31)	(11 700)
Transfers (a)	1 837	5 479	(13 194)	(5 878)
Exchange differences	(6)	160	(138)	16
Balance as at 31 December 2010	526 004	551 934	4 089	1 082 027
Acquisitions	656	13 193	27 233	41 082
Disposals	(3 304)	(10 102)	-	(13 406)
Transfers (a)	(809)	5 443	(10 306)	(5 672)
Exchange differences	70	117	3	190
Other	-	(2)	(5)	(7)
Balance as at 31 December 2011	522 617	560 583	21 014	1 104 214
Depreciation				
Balance as at 31 December 2009	242 926	424 455	-	667 381
Depreciation of the year	17 487	30 078	-	47 565
Disposals	(5 179)	(5 847)	-	(11 026)
Transfers (a)	(1 502)	(77)	-	(1 579)
Exchange differences	-	145	-	145
Balance as at 31 December 2010	253 732	448 754	-	702 486
Depreciation of the year	15 864	28 553	-	44 417
Disposals	(3 295)	(10 062)	-	(13 357)
Transfers	(1 355)	(48)	-	(1 403)
Exchange differences	14	110	-	124
Balance as at 31 December 2011	264 960	467 307	-	732 267
Net amount as at 31 December 2011	257 657	93 276	21 014	371 947
Net amount as at 31 December 2010	272 272	103 180	4 089	379 541

(a) Property and equipment relating discontinued branches that were transferred at their net value to assets held for sale.

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
Internally developed		
Software	45 440	37 030
Acquired to third parties		
Software	553 396	508 649
Work in progress	19 265	32 644
	618 101	**578 323**
Accumulated amortisation	(499 859)	(458 133)
	118 242	**120 190**

The balance internally developed software includes the costs incurred by the Bank in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.12).

The movement in this balance was as follows:

(in thousands of euro)

	Software	Work in progress	Total
Acquisitions cost			
Balance as at 31 December 2009	502 633	26 359	528 992
Acquisitions:			
Internally developed	-	8 471	8 471
Acquired from third parties	6 739	34 248	40 987
Disposals	(79)	(43)	(122)
Transfers	36 379	(36 391)	(12)
Exchange differences	7	-	7
Balance as at 31 December 2010	545 679	32 644	578 323
Acquisitions:			
Internally developed	-	8 560	8 560
Acquired from third parties	10 423	20 192	30 615
Transfers	42 386	(42 386)	-
Exchange differences	348	255	603
Balance as at 31 December 2011	598 836	19 265	618 101
Amortisation			
Balance as at 31 December 2009	424 004	-	424 004
Amortisation of the year	34 122	-	34 122
Exchange differences	7	-	7
Balance as at 31 December 2010	458 133	-	458 133
Amortisation of the year	41 622	-	41 622
Exchange differences	104	-	104
Balance as at 31 December 2011	499 859	-	499 859
Balance as at 31 December 2011	98 977	19 265	118 242
Balance as at 31 December 2010	87 546	32 644	120 190

NOTE 28 – INVESTMENTS IN ASSOCIATES

The financial information concerning subsidiaries and associates is presented in the following table:

(in thousands of euro)

	31.12.2011				31.12.2010			
	Number of shares	% held by the bank	Par value (euro)	Acquisition cost	Number of shares	% held by the bank	Par value (euro)	Acquisition cost
BES AÇORES	2 013 303	57.52%	5.00	9 653	2 013 303	57.52%	5.00	9 653
BES FINANCE	100 000	100.00%	1.00	25	100 000	100.00%	1.00	25
BES ORIENTE	199 500	99.75%	96.59	21 341	199 500	99.75%	93.48	21 341
BES ANGOLA	8 856 548	51.94%	7.72	61 351	8 856 548	51.94%	7.48	61 351
BES-VIDA	24 999 800	50.00%	1.00	474 996	24 999 800	50.00%	5.00	474 996
BESI	45 253 800	100.00%	5.00	316 103	36 000 000	100.00%	5.00	269 834
BESNAC	1 000	100.00%	0.77	36	1 000	100.00%	0.74	36
BEST	20 181 680	32.03%	1.00	20 182	20 181 680	32.03%	1.00	20 182
AVISTAR	300 000 000	100.00%	1.00	300 000	100 000 000	100.00%	1.00	100 000
BIC INTERNATIONAL BANK	10 200 000	100.00%	1.00	224 197	10 200 000	100.00%	1.00	224 197
E.S. BANK	3 188 525	99.99%	3.86	71 027	6 377 050	98.45%	3.73	71 027
E.S. PLC	29 997	99.99%	5.00	38	29 997	99.99%	5.00	38
BES SEGUROS	749 800	24.99%	5.00	3 749	749 800	24.99%	5.00	3 749
E.S. TECH VENTURES	65 000 000	100.00%	1.00	65 000	65 000 000	100.00%	1.00	65 000
ESAF SGPS	2 114 900	90.00%	5.00	60 394	1 645 000	70.00%	5.00	8 205
ESCLINC	100	100.00%	6 272.47	786	100	100.00%	6 073.90	786
ES CONCESSÕES	682 306	71.66%	5.00	20 602	390 000	40.96%	5.00	19 794
ESEGUR	242 000	44.00%	5.00	9 634	242 000	44.00%	5.00	9 634
ESGEST	20 000	100.00%	5.00	100	20 000	100.00%	5.00	100
E.S. REPRESENTAÇÕES	49 995	99.99%	0.41	39	49 995	99.99%	0.45	39
ESUMÉDICA	-	-	-	-	74 700	24.90%	5.00	395
EUROP ASSISTANCE	-	-	-	-	345 000	23.00%	5.00	1 147
FIDUPRIVATE	-	-	-	-	6 190	24.76%	5.00	31
LOCARENT	525 000	50.00%	5.00	2 967	525 000	50.00%	5.00	2 967
QUINTA DOS CÓNEGOS	599 400	81.00%	5.00	4 893	599 400	81.00%	5.00	4 893
PARSUNI	1	100.00%	5 000.00	5	1	100.00%	5 000.00	5
SCI GEORGES MANDEL	15 750	22.57%	152.45	2 401	15 750	22.50%	152.45	2 401
BES BETEILIGUNGS GMBH	1	100.00%	25 000.00	365 025	1	100.00%	25 000.00	365 025
ES SERVICIOS	13 998	100.00%	0.39	1 558	13 998	99.98%	1.50	4 015
ESAF ESPANHA	975 000	50.00%	10.00	42 765	750 500	50.00%	10.00	41 015
PRAÇA DO MARQUÊS	3 185 000	100.00%	4.99	27 724	3 185 000	100.00%	4.99	27 724
OBLOG	199 900	66.63%	5.00	-	199 900	66.63%	5.00	-
BES ÁFRICA	5 200 000	100.00%	5.00	26 000	2 820 000	100.00%	5.00	14 100
BANCO DELLE TRE VENEZIE S	5 275	20.00%	5.00	8 926	5 275	20.00%	5.00	8 926
AMAN BANK	4 000 802	40.00%	5.00	40 269	4 000 802	40.00%	5.00	40 269
UNICRE-AM	350 029	17.50%	6.00	11 497	350 029	17.50%	6.00	11 497
IJAR	122 499	35.00%	8.00	12 362	-	-	-	-
Outros				-				132
				2 205 645				1 884 529
Impairment losses				(450 937)				(107 929)
				1 754 708				1 776 600

The main changes in Investments in Associates that occurred during 2011 are highlighted as follows:

- In January 2011, BES África has increased the capital of euro 14 100 thousand to euro 23 000 thousand, and in June 2011 aimed to increased the capital to euro 26 000 thousand. The bank endorsed all of the 2 380 000 shares issued.
- In April 2011, BES sold the participation in Esumédica to Companhia de Seguros Tranquilidade, SA, originating a capital gain of euro 663 thousands;
- In August 2011, Fiduprivate – Society Services, Consulting and Business Administration, SA, was liquidated, being recognised a loss of euro 167 thousand;

- In September 2011, BES sold the stake held in Europ Assistance to Companhia de Seguros Tranquilidade, SA, originating a gain of euro 1 318 thousand;
- 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, 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 in 35%.

The movement of impairment losses related to investments in subsidiaries and associates is presented as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Balance at the begining of the year	107 929	107 892
Charge for the year	346 362	8 028
Charge off	(3 353)	-
Write back for the year	-	(7 991)
Other	(1)	-
Balance at the end of the year	**450 937**	**107 929**

During the year ended in 31 December 2011, the Bank recognised an impairment in the amount of euro 337 500 thousand regarding the investment in BES Vida, corresponding to the difference between the carrying amount of the investment and the estimated recoverable amount.

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		
Recoverable government subsidies on mortgage loans	48 591	41 994
Deposit accounts	1 079 103	693 464
Loans to subsidiaries and associates	140 600	156 618
Public sector	134 925	123 885
Sundry debtors	1 357 265	1 978 153
	2 760 484	2 994 114
Impairment losses on debtors	(38 258)	(5 513)
	2 722 226	2 988 601
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	9 939	11 649
Other assets	71 873	70 885
	81 812	82 534
Accrued income	29 190	44 872
Prepayments and deferred costs	108 392	136 653
Other sundry assets		
Foreign exchange transactions pending settlement	-	1 681
Stock exchange transactions pending settlement	-	53 971
	-	55 652
Assets recognised on pensions (see Note 13)	117 554	41 776
	3 059 174	3 350 088

As at 31 December 2011, Loans to companies in which the Bank has a non-controlling interest include the amount of euro 100 000 thousands related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2010: euro 110 000 thousands).

The balance Other sundry debtors includes euro 800 000 thousand related capital contributions granted to Avistar, SGPS, SA (31 December 2010: euro 1 834 000 thousand).

As at 31 December 2011, the balance prepayments and deferred costs includes the amount of euro 65 630 thousand (31 December 2010: euro 62 104 thousand) related to the difference between the nominal amount of loans granted to Bank'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 2.5.

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	5 513	3 132
Charge for the year	32 745	-
Other	-	2 381
Balance at the end of the year	**38 258**	**5 513**

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		
Deposits	22 018	153 702
Other funds	8 700 000	4 800 000
	8 722 018	4 953 702
From other Central Banks		
Deposits	510 184	2 438 089
	510 184	2 438 089
	9 232 202	7 391 791

Other funds from the European System of Central Banks in the amount of euro 8 700 million (31 December 2010: euro 4 800 million), are covered by securities from the available-for-sale portfolio pledged as collaterals (see Note 40).

As at 31 December 2011, the balance Deposits from other Central Banks – Deposits includes the amount of euro 402 million related to deposits with Angola Central Bank (31 December 2010: euro 1 356 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	3 829 316	3 242 966
3 to 12 months	401 497	4 148 825
1 to 5 years	5 001 389	-
	9 232 202	7 391 791

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		
Deposits	783 401	416 642
Very short term funds	251 043	44 148
Repurchase agreements	170 440	-
Other funds	1 577	1 574
	1 206 461	462 364
International		
Deposits	5 563 143	9 174 243
Loans	1 591 609	1 514 358
Very short term funds	1 584 531	1 134 365
Repurchase agreements	1 040 581	1 188 310
Other funds	153 373	91 937
	9 933 237	13 103 213
	11 139 698	13 565 577

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	3 897 587	5 642 177
3 to 12 months	488 983	1 409 126
1 to 5 years	3 463 540	2 737 889
More than 5 years	3 289 588	3 776 385
	11 139 698	13 565 577

As at 31 December 2011, this balance includes the amount of euro 592 475 thousand (31 December 2010: euro 530 862 thousand) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 24).

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	6 657 791	6 766 038
Time deposits		
Time deposits	22 592 826	16 942 628
Other	3 245	641 945
	22 596 071	17 584 573
Savings accounts		
Pensioners	14 505	28 753
Other	1 455 824	1 745 350
	1 470 329	1 774 103
Other funds	455 182	466 300
	31 179 373	26 591 014

This balance includes the amount of euro 7 219 million (31 December 2010: euro 3 805 million) of deposits recognised in the balance sheet at fair value through profit or loss (see Note 24).

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	6 657 791	6 766 038
With agreed maturity		
Up to 3 months	14 116 717	8 519 187
3 to 12 months	6 123 417	7 337 614
1 to 5 years	4 159 546	3 855 189
More than 5 years	121 902	112 986
	24 521 582	19 824 976
	31 179 373	26 591 014

NOTE 33 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Certificates of deposit	641 205	1 745 704
Euro Medium Term Notes	5 566 664	6 147 848
Bonds	2 702 875	3 508 463
Covered bonds	933 732	2 333 906
Other	319 183	318 832
	10 163 659	14 054 753

As at 31 December 2011, bonds issued by the Bank 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 136 329 thousand (31 December 2010: euro 92 327 thousand) related with debt securities issued recorded in the balance sheet at fair value through profit or loss (see Note 24).

During the year ended 31 December 2011, BES issued covered bonds for an 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	17-11-2009	17-02-2015	Annual	3.375%	Baa3
BES Covered bonds DUE JUL 17	750 000	132	07-07-2010	09-07-2017	Annual	Euribor 6 M + 0,60%	Baa3
BES Covered bonds 21/07/2017	1 250 000	-	21-07-2010	21-07-2017	Annual	Euribor 6 M + 0,60%	Baa3
BES Covered bonds DUE 4,6%	40 000	40 445	15-12-2010	26-01-2017	Annual	Fixed rate 4,6%	Baa3
BES Covered bonds HIPOT. 2018	1 250 000	-	25-01-2011	25-01-2018	Annual	Euribor 6 M + 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 amounted to euro 5 305 886 thousand (31 December 2010: euro 4 963 051 thousand) (see Note 22).

The changes occurred in debt securities issued during the periods ended 31 December 2011 and 2010 are analysed as follows:

(in thousands of euro)

	31.12.2010	Issues	Repayments	Net repurchase	Other movements (a)	31.12.2011
Certificates of deposit	1 745 704	-	(1 106 173) [b]	-	1 674	641 205
Euro Medium Term Notes	6 147 848	218 104	(173 000)	(617 999)	(8 289)	5 566 664
Bonds	3 508 463	-	(697 680)	(36 541)	(71 367)	2 702 875
Covered bonds	2 333 906	-	(1 250 000)	(123 987)	(26 187)	933 732
Other	318 832	-	-	-	351	319 183
	14 054 753	218 104	(3 226 853)	(778 527)	(103 818)	10 163 659

[a] Other include accrued interest, fair value hedge and fair value adjustments and foreign translation exchange adjustments
[b] Certificates of deposit are presented at net value, considering its short term maturity

The analysis of debt securities issued by the period to maturity is as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Up to 3 months	3 582 438	3 136 800
3 to 12 months	492 802	610 763
1 to 5 years	5 794 593	9 908 825
More than 5 years	293 826	398 365
	10 163 659	14 054 753

The main characteristics of debt securities issued are presented as follows:

(in thousands of euros)

		31.12.2011			
Issuer	Designation	Currency	Book value	Maturity	Global yield / interest rate
BES (London Branch)	Certificados de depósito	USD	602 485	2012	4.79% - 5.47%
BES (New York Branch)	Certificados de depósito	USD	38 720	2012	4.41% - 5.53%
BES	BES 3,75%	EUR	1 571 626	2012	Fixed rate - 3.75%
BES	BES DUE 2012	EUR	1 000 613	2012	3 M Euribor + 0.10%
BES	BES DUE 2013	EUR	444 538	2013	3 M Euribor + 0.125%
BES	BES DUE JUN 14	EUR	439 433	2014	3 M Euribor + 0.15%
BES	BES COMMODIT 7%	EUR	1 136	2014	Fixed Rate - 7.00%
BES	BES ER 4% ABR05	EUR	2 473	2013	Fixed rate 4.08% on 1st. 2nd e 8th years + Swap rate from 3rd to 7st years.
BES	BES ER 4% ABR05	EUR	1 859	2013	Fixed rate 4.14% on 1st.2nd e 8º years + Swap rate from 3rd to 7st years.
BES	BES ER3,75%0805	EUR	2 566	2013	Fixed rate 3.85% on 1st.2nd e 8º years + Swap rate from 3rd to 7st years.
BES	BES-E.RENDA 4%	EUR	8 890	2013	Fixed rate 4.15% on 1st.2nd e 8º years + Swap rate from 3rd to 7st years.
BES	BIC E.RENDA 4%	EUR	3 111	2013	Fixed rate 4.15% on 1st.2nd e 8º years + Swap rate from 3rd to 7st years.
BES	BES DUE 2012	EUR	308 587	2012	Fixed rate 4.43%
BES	BEF 2005/2015	EUR	10 022	2015	Fixed rate 4.721 %
BES	BES RENDIM.CR.	EUR	191	2012	6 M Euribor + 0.60%
BES	BES REND.CR.	EUR	14 554	2012	Fixed rate - 3.85%
BES	BES 5,625% 2014	EUR	1 576 051	2014	Fixed rate - 5.63%
BES	BES CR.OUT.09	EUR	1 192	2012	b)
BES	BES 3,375%	EUR	893 155	2015	Fixed rate 3.375%
BES	BES DUE 02/2013	EUR	845 025	2013	3 M Euribor + 1%
BES	BES R.FIXO 1	EUR	7 745	2012	Fixed rate 4.05%
BES	BES R.FIXO 2	EUR	7 846	2012	Fixed rate 4.05%
BES	BES R.FIXO 3	EUR	7 615	2012	Fixed rate 4.05%
BES	BES R.FIXO 4	EUR	7 605	2012	Fixed rate 4.05%
BES	BES R.FIXO 5	EUR	6 840	2012	Fixed rate 4.05%
BES	BES R.FIXO 6	EUR	571	2012	Fixed rate 3.45%
BES	BES R.FIXO 7	EUR	502	2012	Fixed rate 3.45%
BES	BES R.FIXO 8	EUR	502	2012	Fixed rate 3.45%
BES	BES R.FIXO 9	EUR	503	2012	Fixed rate 3.45%
BES	BES R.FIXO 10	EUR	503	2012	Fixed rate 3.45%
BES	BES DUE 3,875%	EUR	587 778	2015	Fixed rate 3.875%
BES	BES DUE MAR.12	EUR	150 238	2012	3 M Euribor + 0.94%
BES	BES DUE JUL 17	EUR	132	2017	6 M Euribor + 0.60%
BES	BES DUE 4,6%	EUR	40 445	2017	Fixed rate 4.6%
BES	BES DUE JULY 16	EUR	83 883	2016	Fixed rate 6.875%
BES	BES 4,95% 2014	EUR	567	2014	3 M Euribor + 4.95%
BES	BES DUE 27/8/13	EUR	40 186	2013	3 M Euribor + 3%
BES	BES PORTUGAL NO	EUR	15 824	2014	6 M Euribor + 3.5%
BES	BES PORTUGAL	EUR	17 275	2014	6 M Euribor + 3.5%
BES	BES 3% 16/12/20	EUR	57 233	2021	Fixed rate 3%
BES (Cayman Branch)	BES CAYMAN - Cupão Zero	EUR	10 399	2027	Zero coupon - Effective rate 5.74%
BES (Cayman Branch)	BES CAYMAN ZC 02/18/2028	EUR	12 921	2028	Zero coupon - Effective rate 5.50%
BES (Cayman Branch)	BES CAYMAN ZC 28/03/2033	EUR	34 977	2033	Zero coupon - Effective rate 5.69%
BES (Cayman Branch)	BES CAYMAN 5,37% 03/12/18	USD	73 403	2018	Fixed rate - 5.37%
BES (Cayman Branch)	BES CAYMAN Step Up 07/25/1	USD	59 703	2013	StepUp (1st coupon1.50%)
BES (Cayman Branch)	BES CAYMAN Step Up 08/27/1	EUR	60 039	2013	StepUp (1st coupon3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 09/02/1	EUR	79 700	2013	StepUp (1st coupon3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 09/16/1	EUR	76 382	2013	StepUp (1st coupon2.90%)
BES (Cayman Branch)	BES CAYMAN Step Up 10/07/1	EUR	79 237	2013	StepUp (1st coupon3.10%)
BES (Cayman Branch)	BES CAYMAN - Cupão Zero	EUR	30 698	2028	Zero coupon - Effective rate 5.81%
BES (Cayman Branch)	BES CAYMAN Step Up 02/02/1	USD	40 992	2017	StepUp (1stcoupon 1.87%)
BES (Cayman Branch)	BES CAYMAN Step Up 07/21/1	USD	60 091	2014	StepUp (1stcoupon 2.07%)
BES (Cayman Branch)	BIC CAYMAN 17 2001	EUR	52 266	2012	Fixed rate - 5.89%
BES (Cayman Branch)	BIC CAYMAN 18 2001	EUR	51 852	2012	Fixed rate - 5.83%
BES (Cayman Branch)	BIC CAYMAN 19 2001	EUR	51 843	2012	Fixed rate - 5.96%
BES (Cayman Branch)	BIC CAYMAN 20 2001	EUR	325	2012	Fixed rate - 5.94%
BES (Cayman Branch)	BIC CAYMAN 23 2001	EUR	79 495	2013	Fixed rate - 6.03%
BES (Cayman Branch)	BIC CAYMAN 25 2001	EUR	79 988	2014	Fixed rate - 6.02%
BES (Cayman Branch)	BIC CAYMAN 27 2001	EUR	49 415	2015	Fixed rate - 6.09%
BES (Cayman Branch)	BIC CAYMAN 1 2002	EUR	54 571	2012	Fixed rate - 5.92%
BES (Cayman Branch)	BIC CAYMAN 2 2002	EUR	6 159	2012	Fixed rate - 4.65%
BES (Spain Branch)	Comercial paper	EUR	153 769	2014	Fixed rate 4.5%
BES (Spain Branch)	Comercial paper	EUR	80 368	2014	Fixed rate 4%
BES (Spain Branch)	Comercial paper	EUR	85 046	2016	Fixed rate 4.25%
			10 163 659		

NOTE 34 – PROVISIONS

As at 31 December 2011 and 2010, the balance of provisions presents the following movements:

(in thousands of euro)

	General banking risk provision	Other provisions	Total
Balance as at 31 December 2009	477 270	149 904	627 174
Charge for the year	(26 185)	43 591	17 406
Charge off	-	(14 964)	(14 964)
Exchange differences and other	(1 479)	352	(1 127)
Balance as at 31 December 2010	449 606	178 883	628 489
Charge for the year	(16 474)	(2 617)	(19 091)
Charge off	-	(28 618)	(28 618)
Exchange differences and other	318	7	325
Balance as at 31 December 2011	433 450	147 655	581 105

Other provisions in the amount of euro 147.7 million (31 December 2010: euro 178.9 million) are intended to cover certain contingencies related to the Bank's activities, as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Bank has provisions in the 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 Bank. 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, BES maintains provisions of approximately euro 32.7 million (31 December 2010: euro 35.2 million);
- Contingencies for ongoing processes regarding commercial operations performed abroad in the amount of euro 11.8 million (31 December 2010: euro 36.7 million);
- The remaining balance of approximately euro 19.3 million (31 December 2010: euro 18.5 million), is maintained to cover potential losses within the normal activities of the Bank, 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 determined its current and deferred income tax balance for the year ended 31 December 2010 and on the basis of a nominal rate of 26.5%, in accordance with the Law No. 107-B/2003 from 31 December and Law No. 2/2007 of 15 January (approved Local Tax Law). The current and deferred tax for the year ended 31 December 2011 was determined based on a tax rate of 26.5% plus an additional tax of 2.5% added following Decree-law nr 12-A of 30 June, in the scope of the additional measures of "Programa de Estabilidade e Crescimento (PEC)".

Taxes on income (current or deferred) are recognized in the income statement, except in cases where the underlying transactions have been reflected in equity. In these situations, the corresponding tax is also recognized directly in equity, without affecting the income statement.

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 into account in the calculation of the deferred taxes as at 31 December 2011.

The Portuguese Tax Authorities are entitled to review the annual tax returns of the Bank and its Portuguese subsidiaries for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries domiciled in Portugal are confident that there will be no further material tax assessments within the context of the financial statements.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 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	104 639	65 717	(65 810)	(87 649)	38 829	(21 932)
Loans and advances to customers	310 248	231 877	-	-	310 248	231 877
Property and equipment	-	-	(9 068)	(9 239)	(9 068)	(9 239)
Intangible Assets	102	102	-	-	102	102
Investments in subsidiaries and associates	54 045	3 821	(9 353)	(9 353)	44 692	(5 532)
Provisions	28 052	28 815	-	-	28 052	28 815
Pensions	284 741	276 085	(38 947)	(42 929)	245 794	233 156
Long-term service benefits	7 162	7 821	-	-	7 162	7 821
Tax losses brought forward	2 845	42 242	(616)	-	2 229	42 242
Other	7 704	4 284	-	(5 624)	7 704	(1 340)
Deferred tax asset / (liability), net	**799 538**	**660 764**	**(123 794)**	**(154 794)**	**675 744**	**505 970**

The Bank has evaluated the recoverability of its deferred tax assets recognized on the balance sheet based on the expectations of future taxable profits.

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	505 970	394 806
Recognised in the income statement	147 534	62 191
Recognised in fair value reserve	51 701	35 000
Recognised in reserve - other comprehensive income	(9 356)	18 550
Recognised in other reserves	(24 124)	(3 388)
Exchange differences and other	4 019	(1 189)
Balance at the end of the year (Assets / (Liabilities))	675 744	505 970

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
Deferred taxes				
Financial Instruments	(9 060)	(51 701)	(25 409)	(35 000)
Loans and advances to customers	(78 371)	-	(32 183)	-
Property and equipment	(171)	-	(2 259)	-
Intangible assets	-	-	9	-
Investments in subsidiaries and associates	(50 224)	-	26 579	-
Provisions	763	-	(4 720)	-
Pensions	(21 994)	5 374	4 024	(17 057)
Health care - SAMS	-	-	18 489	(1 493)
Long-term service benefits	659	-	(868)	-
Debt securities issued	11 907	28 106	(42 242)	-
Other	(1 043)	-	(3 611)	3 388
Deferred taxes	(147 534)	(18 221)	(62 191)	(50 162)
Current taxes	4 278	4 497	5 744	46
Total	(143 256)	(13 724)	(56 447)	(50 116)

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 1 535 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		(276 345)		199 550
Banking levy		(28 708)		-
Profit before tax for the tax rate reconciliation		(247 637)		199 550
Statutory tax rate	29.0		29.0	
Income tax calculated based on the statutory tax rate		(71 815)		57 870
Tax-exempt dividends	43.6	(107 852)	(30.1)	(60 028)
Tax-exempt profits (off shore)	3.6	(8 825)	(5.1)	(10 120)
Tax-exempt gains	2.3	(5 681)	(34.7)	(69 119)
Non-deductible costs	(32.3)	80 044	10.4	20 673
Changes in tax-rate related to deferred taxes	-	-	(8.5)	(17 000)
Non-recoverable taxes paid abroad	-	-	4.4	8 739
Effect of deferred tax asset calculated on losses brought forward considering a 25% r	-	-	3.4	6 759
Utilization of tax losses brought forward for which no deferred tax assets had been constituted	11.2	(27 678)	-	-
Other	0.6	(1 449)	2.9	5 779
Tax in the period	57.8	(143 256)	(28.3)	(56 447)

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 Bank recongnised a cost of euro 28.7 million, which was included in Other Operating income and Expenses – Direct and indirect taxes (see Note 11).

NOTE 36 – SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Bonds	718 363	729 814
Loans	166 518	1 774 694
Perpetual Bonds	11 304	-
	896 185	2 504 508

Changes in subordinated debt are analysed as follows:

(in thousands of euro)

	31.12.2010	Issues	Repayments	Net Repurchases	Other movements (a)	31.12.2011
Bonds	729 814	8 174	(1)	(21 553)	1 929	718 363
Loans	1 774 694	-	(689 045)	(873 390)	(45 741)	166 518
Perpetual Bonds	-	-	-	15 000	(3 696)	11 304
	2 504 508	8 174	(689 046)	(879 943)	(47 508)	896 185

a) Other include accrued interest, fair value and foreign exchange translation adjustments.

The main features of the subordinated debt are presented as follows:

(in thousands of euro)

Designation	31.12.2011						
	Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity	
Subordinated perpetual loans	EUR	2002	500 000	38 739	6.63%	2012	a)
Subordinated perpetual loans	EUR	2004	500 000	107 694	4.51%	2015	a)
Subordinated loans	EUR	2008	20 000	20 085	Euribor 3M + 1%	2018	
Subordinated bonds	EUR	2004	25 000	25 145	Euribor 6M + 1.25%	2014	
Subordinated bonds	EUR	2008	41 550	12 786	Euribor 3M + 1%	2018	
Subordinated perpetual bonds	EUR	2005	15 000	11 304	Euribor 3M + 2.25%	2015	a)
Subordinated bonds	EUR	2008	638 450	622 099	Euribor 3M + 3%	2019	
Subordinated bonds	EUR	2008	50 000	50 099	Euribor 3M + 1.05%	2018	
Subordinated bonds	EUR	2011	8 174	8 234	Fixe rate 10%	2021	
			1 798 174	896 185			

a) data da call option

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	159 422	111 942
Deposit accounts	111 874	132 504
Sundry creditors		
Suppliers	45 712	62 678
Creditors from transactions with securities	9 811	17 349
Other sundry creditors	91 414	103 027
	418 233	427 500
Accrued expenses		
Long-term service benefits (see Note 13)	24 947	26 969
Other accrued expenses	126 733	128 992
	151 680	155 961
Deferred income	32 662	21 404
Other sundry liabilities		
Stock exchange transactions pending settlement	143 454	-
Foreign exchange transactions pending settlement	23 603	-
Other transactions pending settlement	102 109	227 809
	269 166	227 809
	871 741	832 674

As at 31 December 2011, 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 2.5.

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 by 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	-
	Non-cumulative guaranteed step-up	€ 197 446 000	66 912 209	-
	TOTAL	**€ 668 308 530**	**294 573 418**	**81 736**

The impact of this transaction in the Bank share capital is presented as follows:

	(in thousands of euro)
Capital	530
Share premium	(4)
Preference shares	(197)
Other equity instruments	(624)
Other reserves and retained earnings	77
Total Equity	**(218)**

Share Premiums

As at 31 December 2011, share premiums are represented by euro 1 076 522 thousand related to the premium paid by the shareholders following the share capital increases.

Other equity instruments

The Bank issued during the year 2010, perpetual subordinated bonds with interest conditioned in the total amount of euro 270 million and perpetual subordinated bonds with interest conditioned in the total amount of euro 600 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 issues are presented as follows:

(in thousands of euro)

Description	Issue date	Currency	Issue Value	Book Value	Interest rate	Coupon date	Reimbursement possibility (1)
Perpetual Bonds	December 2010	EUR	264 952	26 375	8.50%	15/Mar and 14/Sep	From Sep/15
Perpetual Bonds	December 2010	USD	5 080	3 139	8.00%	15/Mar and 14/Sep	From Sep/15
Perpetual Loan	December 2010	EUR	600 000	214 988	5.58%	02/Jul (2)	From Jul/14
			870 032	244 502			

(1) 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.
(2) From July 2014, the interest will be paid quarterly under a reference rate of 3M Euribor + 2.67%

During the year ended 31 December 2011, the Bank paid interest in the amount of euro 17 552 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 437 893 thousand.

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. Given their characteristics, these obligations are considered as equity instruments in accordance with the accounting policy described in Note 2.9.

Treasury stock

BES and its subsidiaries established a share based payment scheme (SIBA) which terminated in December 2010 (see Note 2.15).

During the year ended 31 December 2011, the Bank 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 (thousands of euro)	Number of shares	Amount (thousands 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 due to SIBA shares transactions (3)	-	-	-	(22 131)
Saldo no final do exercício	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			
	Available for-sale financial assets	Deferred tax reserves	Total fair value reserve	Actuarial deviations (net of taxes)	Legal reserve	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2009 (Reported)	**242 736**	**(29 346)**	**213 390**	**-**	**22 000**	**351 540**	**373 540**
Accounting policy change	-	-	-	(595 023)	-	-	(595 023)
Balance as at 31 December 2009 (Restated)	**242 736**	**(29 346)**	**213 390**	**(595 023)**	**22 000**	**351 540**	**(221 483)**
Share-based incentive plan (SIBA)	-	-	-	-	-	366	366
Settlement of Share-based incentive plan (SIBA)	-	-	-	-	-	(22 131)	(22 131)
Actuarial Deviations	-	-	-	(77 266)	-	-	(77 266)
Changes in fair value	(240 148)	34 999	(205 149)	-	-	-	-
Transfer to reserves	-	-	-	-	37 000	168 667	205 667
Pensions - Transitory regime	-	-	-	-	-	(12 879)	(12 879)
Other variations	-	-	-	-	-	329	329
Balance as at 31 December 2010	**2 588**	**5 653**	**8 241**	**(672 289)**	**59 000**	**485 892**	**(127 397)**
Acquisition of other equity instruments	-	-	-	-	-	105 648	105 648
Actuarial Deviations	-	-	-	22 908	-	-	22 908
Changes in fair value	(219 638)	51 701	(167 937)	-	-	-	-
Transfer to reserves	-	-	-	-	26 000	125 849	151 849
Pensions - Transitory regime	-	-	-	-	-	(13 191)	(13 191)
Interest on other equity instruments	-	-	-	-	-	(12 424)	(12 424)
Dividends on other equity instruments				-	-	(11 351)	(11 351)
Other variations	-	-	-	-	-	(2 034)	(2 034)
Balance as at 31 December 2011	**(217 050)**	**57 354**	**(159 696)**	**(649 381)**	**85 000**	**678 389**	**114 008**

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	14 618 083	12 200 371
Accumulated impairment losses recognised	(129 329)	(120 278)
Amortised cost of available-for-sale financial assets, net of impairment	14 488 754	12 080 093
Fair value of available-for-sale financial assets	14 275 267	12 094 262
Net unrealised gains/losses recognised in the fair value reserve	(213 487)	14 169
Fair value reserves related to securities reclassified as held-to-maturity investments (Note 22)	(3 563)	(11 581)
Deferred taxes	57 354	5 653
	(159 696)	8 241

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	**8 241**	**213 390**
Changes in fair value	(249 046)	69 282
Disposals during the year	(16 234)	(330 410)
Impairment recognised during the year	45 642	20 980
Deferred taxes recognised in reserves during the year (see Note 35)	51 701	34 999
Balance at the end of the year	**(159 696)**	**8 241**

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	15 691 225	18 689 854
Assets pleged as collateral	12 493 786	7 983 808
Open documentary credits	2 635 186	2 972 584
Other	356 919	477 571
	31 177 116	30 123 817
Commitments		
Revocable commitments	7 988 988	8 946 546
Irrevocable commitments	3 957 908	4 895 015
	11 946 896	13 841 561

Guarantees and standby letters of credits are banking operations that do not imply any out-flow by the Bank.

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 137 894 thousand (31 December 2010: euro 135 114 thousand) and (ii) in the scope of a liquidity facility collateralised by securities in the amount of euro 11 057 thousand;

- 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 16 981 thousand (31 December 2010: euro 20 919 thousand);

- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 64 000 thousand (31 December 2010: euro 62 300 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 Bank does not fulfil its obligations under the terms of the contracts.

The documentary credits are irrevocable commitments from the Bank 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 Bank 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 Bank 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	50 661 185	62 998 309
Assets for collection on behalf of clients	270 695	274 426
Securitised loans under management (servicing)	8 867 304	7 055 909
Other responsabilities related with banking services	3 461 155	5 019 692
	63 260 339	75 348 336

NOTE 41 – RELATED PARTIES TRANSACTIONS

As at 31 December 2010 and 2009, the balances and transactions with related parties are presented as follows:

(in t

	31.12.2011					31.12.2010			
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income
Subsidiaries									
ES RECUPERAÇÃO DE CRÉDITO	-	510	-	-	5 649	-	610	-	-
ES CONCESSÕES	178 959	54	51 847	12 248	-	201 396	1 721	49 380	9 988
ES ACE 2	-	312	-	1 317	5 744	-	395	-	1 318
ESAF	-	28 294	4 035	15 674	526	-	69 301	5 712	17 709
ESAF ESPANHA	383	25 838	-	5 028	365	2 199	16 535	-	5 784
ES SERVICIOS	35 225	138	-	806	3 203	28 194	141	-	748
ESGEST	-	522	-	-	976	-	175	-	-
ESINF	-	963	-	-	5 017	-	1 082	-	-
BESNAC	-	-	-	-	466	-	634 040	636 132	-
BESI	1 415 457	268 564	11 350	23 005	11 226	1 491 704	25 900	8 000	21 580
BES GMBH	-	20	1 095 572	5 088	20	248 565	-	1 073 552	-
BES ORIENTE	53	112 316	-	-	3 372	47	2 615	-	-
BES FINANCE	244 545	4 487 408	9 699 587	110 401	334 768	519 810	7 622 792	15 324 242	123 001
ES PLC	183 410	1 804 179	2 619 857	2 628	3 428	35 910	215 591	1 616 000	91
ES BANK	20 041	5 960	-	-	-	19 979	18 146	-	-
ES TECH VENTURES	44 263	28	-	1 785	-	42 477	685	-	1 250
ES REPRESENTAÇÕES	-	-	-	-	32	-	-	-	-
ESCLINC	-	-	-	-	1 350	-	-	-	-
BEST	13 181	268 097	-	615	4 042	37 076	72 864	-	977
BES AÇORES	167 648	25 776	-	1 591	332	1 000	29 692	-	2 122
BES ANGOLA	2 189 164	36 512	-	111 000	74	2 038 136	28 461	-	79 957
QUINTA DOS CONEGOS	1 007	-	-	-	-	963	-	-	-
BIBL	2 020 965	1 462 933	2 981 714	32 831	102 313	1 788 143	2 135 141	2 900 716	29 592
FCR PME	-	3 094	-	-	63	-	3 075	-	-
FIQ VENTURES II	21 321	8	-	1 427	-	22 395	-	-	943
SPE-LM6	189 514	-	-	4 331	1 019	191 190	-	-	2 931
SPE-LM7	1 404 012	-	-	24 189	81	1 425 000	-	-	13 510
FTLPF1	153 061	9 070	-	8 746	-	688 507	-	-	11 357
PRAÇA DO MARQUES	2 120	1 490	-	-	1 440	7 120	4 901	-	-
PARSUNI	17	-	-	-	-	17	-	-	-
SPE-SME1	7 844	-	-	560	-	14 423	-	-	-
AVISTAR	800 000	194 192	-	282	7 078	1 834 000	85 331	-	-
FCR_BES_GROWTH	-	626	-	-	-	-	121	-	-
FCR_VENTURES_III	22 398	13	-	1 428	-	24 508	-	-	1 019
AMAN BANK	1 469	3 092	-	-	-	-	23 120	-	-
OBLOG	-	1 175	-	-	-	-	792	-	-
BES ÁFRICA	-	508	-	32	-	-	163	-	16
BANCO DE CABO VERDE	-	13 420	-	-	-	-	9 716	-	-
ES VANGUARDA	-	500	-	-	-				
CLNs	51 835	100 000	-	1 621	9 590	180 190	318 388	-	648
	9 167 892	**8 855 612**	**16 463 962**	**366 633**	**502 174**	**10 842 949**	**11 321 494**	**21 613 734**	**324 541**
Associated companies									
BES VIDA	1 355 199	263 447	-	22 796	1 797	923 559	390 044	-	44 425
ES VÉNÉTIE	865 066	139 804	11 794	2 626	125	882 675	120 234	832	8 112
LOCARENT	142 261	312	-	4 608	8 764	139 951	712	-	3 200
BES SEGUROS	3	8 471	-	-	11	3 781	9 671	-	1 030
EUROP ASSISTANCE (b)	-	-	-	-	-	1 049	1 670	7	-
ESUMÉDICA (a)	-	-	-	-	-	2 569	-	4	82
FIDUPRIVATE	-	-	-	-	-	139	7	-	-
ESEGUR	2 308	219	2 197	119	-	2 361	138	2 261	79
ES CONTACT CENTER	1 988	-	43	114	-	1 406	-	92	60
EMPARK	40 080	-	-	2 499	-	41 537	-	-	2 363
SOUSACAMP	-	5	-	-	-	15 000	7	-	338
ASCENDI GROUP SGPS	188 034	8 337	29 358	8 634	7	188 684	5 348	-	935
NANIUM	42 044	2 752	18 387	971	-	45 403	704	-	610
ASCENDI PINHAL INTERIOR	33 732	10 686	15 374	1 505	103	9 320	17 769	-	256
AENOR DOURO	247 956	1 898	12 000	11 202	18	122 304	592	-	5 013
SCUTVIAS	8 154	-	6 868	219	-	9 140	-	-	193
PALEXPO	6 800	75	-	495	-	6 800	189	-	353
UNICRE	1	10 003	-	-	280	12	16 692	-	-
OUTRAS	37 871	20 412	4 684	1 243	80	15 935	11 810	-	456
	2 971 497	**466 421**	**100 705**	**57 031**	**11 185**	**2 411 625**	**575 587**	**3 196**	**67 505**

(a) Entity related to ESFG since April/11
(b) Entity related to ESFG since September/11

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 with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euro)

	31.12.2011								
	Assets					Guarantees	Liabilities	Income	Expenses
	Loans and advances to banks	Loans	Securities	Other	Total				
ES IRMÃOS	-	99 341	-	-	99 341	-	-	5 242	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	173 644	-	-	173 644	-	154	-	-
ES SAUDE	-	22 479	31 143	-	53 622	24 870	23 873	398	25
GRUPO CRÉDIT AGRICOLE	973	5	-	57	1 035	1 150	460	23	-
PARTRAN	-	-	-	-	-	-	14	-	-
BANQUE PRIVÉE ESPÍRITO SANTO	25 588	-	-	-	25 588	7 874	16 744	-	56
COMPANHIA SEGUROS TRANQUILIDADE	-	167 298	-	-	167 298	21 155	101 811	58	232
ES BANK PANAMA	-	-	-	-	-	-	719	-	-
BESPAR	-	-	-	-	-	-	729	-	-
ESF PORTUGAL	-	-	-	-	-	-	449	-	-
OPWAY	-	14 133	-	-	14 133	47 642	13 073	282	-
T - VIDA	-	85 981	275 778	-	361 759	-	96 105	48	25
CONSTRUCCIONES SARRION	-	21 111	-	-	21 111	820	-	-	-
ESPÍRITO SANTO RESOURCES	-	1	-	-	1	-	901	-	7
ESFG	-	-	-	-	-	-	23	-	-
EUROP ASSISTANCE (b)	-	15	-	-	15	8	1 835	-	-
ESUMÉDICA (a)	-	1 949	-	-	1 949	4	-	109	-
OUTRAS	-	38 448	1 126	-	39 574	22 293	30 213	888	180
TOTAL	**26 561**	**624 405**	**308 047**	**57**	**959 070**	**125 816**	**287 103**	**7 048**	**525**

(a) Entity related to ESFG since April/11
(b) Entity related to ESFG since September/11

(in thousands of euro)

	31.12.2010								
	Assets					Guarantees	Liabilities	Income	Expenses
	Loans and advances to banks	Loans	Securities	Other	Total				
ES IRMÃOS	-	87 948	-	-	87 948	-	-	2 469	-
ESCOM	-	-	-	-	-	-	-	6 374	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	135 000	-	-	135 000	-	74	-	-
ES SAUDE	-	118 944	12 434	-	131 378	24 885	5 308	3 046	1
GRUPO CRÉDIT AGRICOLE	973	-	-	76	1 049	207	549	-	-
PARTRAN	-	-	-	-	-	-	40	-	-
BANQUE PRIVÉE ESPÍRITO SANTO	-	-	-	-	-	10 623	11 088	-	-
COMPANHIA SEGUROS TRANQUILIDADE	-	2 667	-	-	2 667	21 563	68 136	70	160
ES BANK PANAMA	-	-	-	-	-	-	2 930	-	44
BESPAR	-	-	-	-	-	-	479	-	-
ESF PORTUGAL	-	1	-	-	1	-	152	-	-
OPWAY	-	31 606	-	-	31 606	35 665	8 998	713	-
T - VIDA	-	20	190 281	-	190 301	-	97 094	-	106
CONSTRUCCIONES SARRION	-	22 039	-	-	22 039	-	-	-	-
ESPÍRITO SANTO RESOURCES	-	-	-	-	-	-	186	-	1
ESFG	-	-	-	-	-	-	91 325	-	-
OUTRAS	-	66 078	1 126	-	67 204	12 370	27 750	1 083	20
TOTAL	**973**	**464 303**	**203 841**	**76**	**669 193**	**105 313**	**314 109**	**13 755**	**332**

As at 31 December 2011, loans granted by BES 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 16 117 thousand (31 December 2010: euro 16 495 thousand).

As at 31 December 2011, loans granted by BES 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 with no advantage granted (nr. 5 of article 397º of the Código das Sociedades Comerciais), being excluded from the nr. 1, 2, 3 and 4 of article 397 of the Código das Sociedades Comerciais.

However, credit granted by the ank 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.
As such, under the above mentioned legislation, the main conditions for granting loans to members of the Board of Directors of credit institutions are:
(i) 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.
(ii) 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 85º of RGICSF.
(iii) 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 Bank. 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 2.4 – Loans and advances to customers.

During the year ended 31 December 2011 the Bank sold 18 520 and 4 830 units of the Fungepi Fund and Fungere Fund to the Bank pensions funds, by a global amount of euro 80.0 million, not incurring in any material loss or gain. During the year ended 31 December 2010, there are no transactions with the pension fund.

NOTE 42 – SECURITISATION TRANSACTIONS

As at 31 December 2011, the outstanding securitisation transactions performed by the Bank 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 Loan
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	Credit 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 Bank 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 performed after 1 January 2004, were derecognised considering that the Bank has transferred substantially all 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 the 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). In December 2010, the Bank performed a securitisation transaction of corporate bonds and commercial paper (financial assets available-for-sale) in the total amount of euro 1 942.7 million (Lusitano SME no.2). These assets were not derecognised from the balance sheet, has the Bank kept the majority of the risks and rewards associated to the assets. These loans were not derecognised considering that the Bank has not transferred substantially all the risks and rewards of ownership.

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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	-	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	-	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	-	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	4 695	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	2 742	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	-	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	8 626	-	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	613 148	48 980	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	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 plc		188 988	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	-	October 2064	-	-	BBB-	-	-	-	BB	-
	Class C	180 500	180 500	-	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-
Lusitano Leverage finance No. 1 BV	Class A	352 000	112 656	80 955	January 2020	-	-	AAA	-	-	-	AAA	-
	Class C	206 800	206 800	148 481	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 43 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities, for the Bank, 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	481 371	-	-	-	481 371	481 371
Deposits with banks	341 698	-	-	-	341 698	341 698
Other financial assets held for trading	-	140 084	1 642 955	-	1 783 039	1 783 039
Financial assets at fair value through profit or loss	-	42 558	1 917 086	9 687	1 969 331	1 969 331
Available-for-sale financial assets	12 226 a)	3 590 792	10 540 820	131 429	14 275 267	14 275 267
Loans and advances to banks	7 928 825	-	-	-	7 928 825	7 928 825
Loans and advances to customers	38 546 915	-	568 972	-	39 115 887	36 690 979
Held-to-maturity investments	830 077	-	-	-	830 077	665 999
Derivatives for risk management purposes	-	-	487 923	-	487 923	487 923
Financial assets	**48 141 112**	**3 773 434**	**15 157 756**	**141 116**	**67 213 418**	**64 624 432**
Deposits from central banks	9 232 202	-	-	-	9 232 202	9 232 202
Financial liabilities held for trading	-	-	1 605 217	-	1 605 217	1 605 217
Deposits from banks	10 444 882	-	694 816	-	11 139 698	10 274 189
Due to customers	23 954 944	-	7 224 429	-	31 179 373	31 179 373
Debt securities issued	8 226 356	-	1 937 303	-	10 163 659	9 031 891
Financial liabilities associated to transferred assets	2 951 364	-	-	-	2 951 364	2 951 364
Derivatives for risk management purposes	-	-	155 741	-	155 741	155 741
Subordinated debt	896 185	-	-	-	896 185	780 242
Financial liabilities	**55 705 933**	**-**	**11 617 506**	**-**	**67 323 439**	**65 210 219**
Balance as at 31 December 2010						
Cash and deposits at central banks	488 677	-	-	-	488 677	488 677
Deposits with banks	262 986	-	-	-	262 986	262 986
Other financial assets held for trading	-	621 303	1 455 831	-	2 077 134	2 077 134
Financial assets at fair value through profit or loss	-	211 651	1 558 123	10 397	1 780 171	1 780 171
Available-for-sale financial assets	16 880 a)	3 590 636	8 446 565	40 181	12 094 262	12 094 262
Loans and advances to banks	8 472 098	-	-	-	8 472 098	8 472 098
Loans and advances to customers	40 589 426	-	506 387	-	41 095 813	39 686 032
Held-to-maturity investments	1 669 268	-	-	-	1 669 268	1 607 644
Derivatives for risk management purposes (assets)	-	-	499 544	-	499 544	499 544
Financial assets	**51 499 335**	**4 423 590**	**12 466 450**	**50 578**	**68 439 953**	**66 968 548**
Deposits from central banks	7 391 791	-	-	-	7 391 791	7 391 791
Financial liabilities held for trading	-	120 553	1 538 108	-	1 658 661	1 658 661
Deposits from banks	12 930 400	-	635 177	-	13 565 577	13 027 838
Due to customers	22 613 685	-	3 977 329	-	26 591 014	26 591 014
Debt securities issued	10 491 586	-	3 563 167	-	14 054 753	12 811 468
Financial liabilities associated to transfered assets	2 043 754	-	-	-	2 043 754	2 043 754
Derivatives for risk management purposes (liabilities)	-	-	277 407	-	277 407	277 407
Subordinated debt	2 228 306		276 202	-	2 504 508	1 567 425
Financial liabilities	**57 699 522**	**120 553**	**10 267 390**	**-**	**68 087 465**	**65 369 358**

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 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 Bank 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. Changes in the parameters have no significant impact in terms of BES financial statements in 2011 and 2010.

During 2011 and 2010, there were no transfer between the different sources/ valuation models used by the Bank 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 begging of the year	50 578	10 975
Acquisitions	83 673	40 181
Disposals	-	(578)
Transfers	7 534	-
Changes in value	(669)	-
Balance at the end of the year	141 116	50 578

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 Bank 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 Bank uses in the valuation models the spot rate observed in the market at the time of the valuation.

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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 Bank 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 Bank 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 Bank estimates its fair value by discounting the expected future cash-flows.

NOTE 44 – RISK MANAGEMENT

A qualitative outlook of the risk management at the Bank 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 Bank. 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 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 credit risk exposure is analysed as follows:

(in thousands of euro)

	31.12.2011	31.12.2010
Deposits with banks	8 549 195	9 033 271
Financial assets held for trading	1 770 793	2 075 218
Financial assets at fair value through profit or loss	178 140	655 730
Available-for-sale financial assets	13 456 714	11 019 646
Loans and advances to customers	39 115 887	41 095 813
Held-to-maturity investments	830 077	1 669 268
Derivatives for risk management purposes	487 923	499 544
Other assets	1 563 688	2 216 124
Guarantees granted	15 691 225	18 689 854
Stand by letters of credit	2 635 186	2 972 584
Irrevocable commitments	3 957 908	4 895 015
Credit risk associated to the credit derivatives reference entities	136 540	223 717
	88 373 276	95 045 784

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 as at fair value through profit or loss	Derivatives for risk management purposes	Available-for-sale financial assets		Held-to-maturity investments		Guarantees granted
	Gross amount	Impairment[a]				Gross amount	Impairment	Gross amount	Impairment	
Agriculture	419 649	(16 128)	11 111	-	-	11 315	(3 087)	-	-	45 505
Mining	186 523	(7 110)	1 645	-	-	1 027	(546)	-	-	18 586
Food, beverage na tobacco	770 235	(42 938)	10 918	-	-	22 286	(52)	-	-	93 096
Textiles	310 403	(27 562)	1 906	-	-	20 103	(2 238)	-	-	14 992
Shoes	70 265	(5 699)	459	-	-	515	(499)	-	-	2 040
Wood and cork	155 022	(23 635)	812	-	-	1 372	-	-	-	6 879
Priting and publishing	307 717	(5 877)	4 929	-	-	116 078	(1 989)	-	-	87 922
Refining and oil	29 233	(191)	2 679	-	-	-	-	-	-	4 620
Chemicals and rubber	446 121	(9 381)	11 156	-	-	47 255	(10 856)	-	-	95 245
Non-metalic minerals	334 045	(17 835)	475	-	-	33 370	(7 458)	-	-	26 855
Metalic products	686 995	(34 820)	1 308	-	-	-	-	-	-	119 266
Production of machinery, equipment and elec	184 633	(6 812)	2 381	-	-	50 455	(2 077)	-	-	139 011
Production of transport material	480 550	(14 074)	504	-	-	576	(99)	-	-	29 429
Other transforming industries	260 658	(23 458)	1 665	-	-	11 843	(6 199)	-	-	44 328
Electricity, gas and water	1 019 353	(7 930)	58 564	-	-	391 041	-	-	-	471 915
Construction	3 741 305	(228 610)	127 220	56 000	-	152 583	(1 687)	-	-	2 388 812
Wholesale and retail	2 754 598	(204 951)	16 642	-	-	301 816	(15 203)	-	-	531 202
Tourism	1 466 097	(53 515)	8 435	-	-	643	(379)	-	-	95 728
Transports and communications	1 557 424	(76 457)	106 876	-	-	512 370	-	9 865	-	1 020 237
Financial activities	2 449 804	(191 370)	1 060 726	1 715 319	487 923	7 597 840	(29 917)	578 045	(21 036)	7 880 243
Real estate activities	4 905 677	(266 888)	45 987	70 000	-	267 815	(1 776)	-	-	446 987
Services provided to companies	3 952 567	(155 244)	124 071	90 002	-	1 456 342	(16 537)	-	-	1 685 040
Public services	979 723	(20 459)	124 825	-	-	2 782 240	-	147 545	-	242 513
Non-profit organisations	2 120 494	(223 700)	52 264	38 010	-	607 512	(25 797)	126 581	(10 923)	108 387
Mortgage loans	8 493 281	(137 861)	-	-	-	-	-	-	-	39
Consumers loans	2 318 535	(149 445)	-	-	-	-	-	-	-	90 911
Other	237 452	(3 972)	5 481	-	-	18 199	(2 933)	-	-	1 437
TOTAL	**40 638 359**	**(1 955 922)**	**1 783 039**	**1 969 331**	**487 923**	**14 404 596**	**(129 329)**	**862 036**	**(31 959)**	**15 691 225**

[a] Includes the amount of euro 1 140 856 thousand related to provision for impaired loans (see Note 21) and provisions for general banking risks in the amount of euro 449 606 thousand (see Note 3

(in thousands of euro)

	31.12.2010									
	Loans and advances to customers		Financial assets held for trading	Other financial assets as at fair value through profit or loss	Derivatives for risk management purposes	Available-for-sale financial assets		Held-to-maturity investments		Guarantees granted
	Gross amount	Impairment [a]				Gross amount	Impairment	Gross amount	Impairment	
Agriculture	536 134	(23 445)	6 717	-	-	20 314	(3 087)	-	-	42 118
Mining	461 824	(6 664)	4 018	-	-	1 856	-	-	-	21 073
Food, beverage na tobacco	774 121	(16 668)	11 925	-	-	24 501	(52)	4 308	-	98 825
Textiles	358 876	(62 622)	1 925	-	-	20 451	(2 238)	-	-	17 617
Shoes	73 539	(3 796)	629	-	-	520	(499)	-	-	2 269
Wood and cork	160 687	(20 843)	823	-	-	5 389	(1 500)	-	-	4 203
Priting and publishing	292 845	(5 161)	5 734	-	-	140 065	-	-	-	87 321
Refining and oil	14 650	(112)	514	-	-	-	-	-	-	2 873
Chemicals and rubber	476 465	(10 151)	13 091	-	-	28 784	(10 630)	13 163	-	83 680
Non-metalic minerals	268 493	(14 394)	800	-	-	3 905	-	-	-	37 935
Metalic products	502 875	(26 229)	1 529	-	-	2 325	-	-	-	95 020
Production of machinery, equipment and elec	192 869	(11 024)	2 693	-	-	28 443	(596)	10 749	-	145 296
Production of transport material	106 413	(9 863)	623	-	-	1 201	(31)	-	-	81 655
Other transforming industries	459 167	(23 525)	780	-	-	15 560	(15 508)	-	-	52 171
Electricity, gas and water	1 002 643	(12 318)	27 417	-	-	37 801	-	16 034	-	550 323
Construction	4 353 279	(207 151)	70 664	56 140	-	423 484	(6 625)	7 099	-	2 032 759
Wholesale and retail	3 039 415	(175 029)	12 409	-	-	179 899	(1 331)	-	-	496 535
Tourism	1 394 161	(40 229)	9 977	-	-	1 061	(376)	-	-	73 431
Transports and communications	1 855 827	(71 583)	78 930	-	-	279 806	(3)	211 734	-	1 014 943
Financial activities	1 739 322	(117 883)	1 030 518	1 603 991	499 543	7 622 498	(39 106)	960 780	(31 247)	11 124 322
Real estate activities	5 071 971	(150 471)	27 251	-	-	219 425	(1 724)	-	-	427 797
Services provided to companies	4 118 569	(103 050)	129 949	3	-	954 152	(27 080)	-	-	1 567 760
Public services	1 056 338	(15 714)	595 748	-	-	1 716 223	(1)	190 386	-	248 419
Non-profit organisations	2 274 046	(103 416)	38 078	120 037	-	470 572	(9 886)	282 249	(17 242)	271 842
Mortgage loans	8 614 500	(188 458)	-	-	-	-	-	-	-	39
Consumers loans	2 687 412	(166 420)	-	-	-	-	-	-	-	107 938
Other	350 228	(4 243)	4 392	-	-	16 305	(5)	21 257	-	1 690
TOTAL	**42 236 669**	**(1 590 462)**	**2 077 134**	**1 780 171**	**499 543**	**12 214 540**	**(120 278)**	**1 717 759**	**(48 489)**	**18 689 854**

[a] Includes the amount of euro 935 942 thousands related to provision for impaired loans (see Note 21) and provisions for general banking risks in the amount of euro 477 270 thousands (see Note :

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	4 263	7 791	9 148	4 448
Interest rate risk	3 768	6 444	9 328	4 303
Shares and commodities	13 124	15 522	10 005	13 129
Volatility	7 321	15 475	34 730	10 104
Credit Spread	13 600	7 924	8 920	6 020
Diversification effect	(7 522)	(11 461)	(13 049)	(8 260)
Total	**34 554**	**41 695**	**59 082**	**29 744**

(in thousands of euro)

	31.12.2010			
	December	Annual average	Maximum	Minimum
Exchange Risk	11 842	13 924	20 866	11 538
Interest rate risk	11 366	7 251	10 055	3 123
Shares and commodities	11 586	20 740	28 895	10 677
Diversification effect	(18 322)	(15 722)	(16 804)	(9 969)
Total	**16 472**	**26 193**	**43 012**	**15 369**

BES has a VaR of euro 35 million (31 December 2010: euro 16 million), for its trading positions.

Following the recommendations of Basel II (Pilar 2) and Instructions nº19/2005, of the Bank of Portugal BES 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						
	Elegible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	202 699	202 699					
Loans and advances to banks	8 384 043	-	7 934 131	97 438	40 818	290 640	21 016
Loans and advances to customers	38 964 742	-	26 804 607	7 788 204	2 026 249	1 533 087	812 595
Securities	19 357 901	4 957 447	11 148 627	1 624 952	64 654	682 379	879 842
Off balance sheet			1 622 493	(367 250)	(147 750)	(982 715)	(124 778)
Total			**47 509 858**	**9 143 344**	**1 983 971**	**1 523 391**	**1 588 675**
Deposits from banks	20 228 173	-	13 455 109	567 960	810 732	2 465 194	2 929 178
Due to customers	30 494 781	-	20 474 064	2 780 411	3 128 952	4 021 593	89 761
Repo´s with clients	188 907	-	138 442	50 465	-	-	-
Debt securities issued	10 818 602	-	5 865 620	541 027	41 298	4 068 379	302 278
Preference Shares	244 503	-	-	-	-	244 503	-
Off balance sheet			6 493 564	1 309 566	(1 755 087)	(5 717 011)	(331 270)
Total			**46 426 799**	**5 249 429**	**2 225 895**	**5 082 658**	**2 989 947**
GAP (Assets - Liabilities)			**1 083 059**	**3 893 915**	**(241 924)**	**(3 559 267)**	**(1 401 272)**

(in thousands of euro)

	31.12.2010						
	Elegible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	190 490	190 490	-	-	-	-	-
Loans and advances to banks	8 834 463	-	8 346 341	25 472	150 225	312 425	-
Loans and advances to customers	40 981 781	-	28 049 893	8 352 276	2 138 882	1 374 786	1 065 944
Securities	16 170 010	2 200 973	9 045 086	2 121 852	1 610 974	643 072	548 053
Off balance sheet			2 612 867	(66 200)	(36 000)	(2 338 115)	(172 553)
Total			**48 054 187**	**10 433 400**	**3 864 081**	**(7 832)**	**1 441 444**
Deposits from banks	21 006 018	-	15 918 669	520 935	556 955	1 382 495	2 626 964
Due to customers	25 968 095	-	18 533 883	1 853 269	1 884 350	3 632 544	64 049
Repo´s with clients	128 507	-	128 507	-	-	-	-
Debt securities issued	16 443 343	-	6 826 460	788 301	137 419	8 015 613	675 550
Preference Shares	872 033	-	-	-	-	872 033	-
Off balance sheet			7 049 370	1 322 496	(192 339)	(7 524 831)	(733 156)
Total			**48 456 889**	**4 485 001**	**2 386 385**	**6 377 854**	**2 633 407**
GAP (Assets - Liabilities)			**(402 702)**	**5 948 399**	**1 477 696**	**(6 385 686)**	**(1 191 963)**

The model used to monitor the sensitivity of BES 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	265 515	(265 515)	139 839	(139 839)	318 265	(318 265)	177 484	(177 484)
Average for the year	266 274	(266 274)	141 781	(141 781)	323 113	(323 113)	177 810	(177 810)
Maximum for the year	317 423	(317 423)	167 207	(167 207)	328 916	(328 916)	185 379	(185 379)
Minimum for the year	233 444	(233 444)	121 770	(121 770)	318 265	(318 265)	171 173	(171 173)

The following table presents the average balances, interests and interest rates in relation to the Bank'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	9 114 100	317 826	3.49%	11 090 002	313 891	2.83%
Loans and advances to customers	41 617 026	1 783 165	4.28%	42 243 335	1 447 020	3.43%
Securities	13 966 897	459 791	3.29%	11 813 960	353 693	2.99%
Differencial loans	442 410	-	-	1 265 164	-	-
Financial Assets	**65 140 433**	**2 560 782**	**3.93%**	**66 412 461**	**2 114 604**	**3.18%**
Monetary liabilities	22 045 650	513 729	2.33%	19 463 436	338 471	1.74%
Due to consumers	28 201 594	821 014	2.91%	23 598 435	372 813	1.58%
Other	14 893 189	572 101	3.84%	23 350 590	740 961	3.17%
Financial Liabilities	**65 140 433**	**1 906 844**	**2.93%**	**66 412 461**	**1 452 245**	**2.19%**
Net interest income		**653 938**	**1.00%**		**662 359**	**1.00%**

Note: Assets / (Liabilities)

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	(885 277)	909 868	15 846	40 437	(3 642 732)	3 822 713	(194 030)	(14 049)
GBP	Great Britain Pounds	391 069	(402 883)	(80)	(11 894)	256 212	(256 049)	11 369	11 532
BRL	Brazilian real	38 061	(64 429)	11 687	(14 681)	117 445	(3 731)	(2 375)	111 339
DKK	Danish Krone	133	(3 720)	-	(3 587)	51 758	(3 873)	-	47 885
JPY	Japanese yene	(8 666)	17 400	(10 271)	(1 537)	(331 012)	361 881	(100 142)	(69 273)
CHF	Swiss franc	47 521	(47 674)	3 228	3 075	84 638	(84 849)	5 838	5 627
SEK	Swedish krona	(2 269)	1 305	182	(782)	14 918	(17 061)	-	(2 143)
NOK	Norwegian krone	(3 261)	1 030	(54)	(2 285)	1 865	(2 995)	7 689	6 559
CAD	Canadian Dollar	35 766	(53 078)	19 793	2 481	20 768	(15 590)	2 880	8 058
ZAR	Rand	(1 137)	(715)	2 637	785	2 895	(6 844)	(38 589)	(42 538)
AUD	Australian Dollar	98 265	(101 357)	3 106	14	157 172	(158 495)	10 848	9 525
CZK	Czech koruna	3 785	302	(2 247)	1 840	(676)	774	-	98
MXN	Mexican Peso	77 485	(80 520)	3 215	180	35 968	(35 668)	34 286	34 586
	Other	108 595	(54 178)	80 297	134 714	75 361	(3 536)	416 617	488 442
		(99 930)	**121 351**	**127 339**	**148 760**	**(3 155 420)**	**3 596 677**	**154 391**	**595 648**

Note: Assets / (Liabilities)

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 Bank is analysed as follows:

(in thousands of euro)

	31.12.2011					
	Loans and advances to customers	Financial Assets held for trading at fair value	Derivative Instruments [1]	Available-for-salefinantial assets	Held-to-maturity investments	Total
Portugal	820 000	123 852	67 428	2 771 298	-	3 782 578
Spain	-	-	1 989	3 598	-	5 587
Greece	-	-	(265)	-	-	(265)
Irland	-	-	-	-	-	-
Italy	-	-	(2 865)	-	-	(2 865)
Hungary	-	-	-	-	-	-
	820 000	**123 852**	**66 287**	**2 774 896**	**-**	**3 785 035**

[1] Net values: receivable/(payable)

All the exposures presented above, except loans and advances to customers, are recorded in the Bank'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:

	Nominal Value	Market Value	Accrued Interest	Book Value	Impairment
Available-for-sale assets					
Portugal	**3 136 700**	**2 731 807**	**39 491**	**2 771 298**	**-**
Maturity Up to 1 year	2 023 946	1 995 177	14 477	2 009 654	-
Maturity above 1 year	1 112 754	736 630	25 014	761 644	-
Spain	**3 536**	**3 531**	**67**	**3 598**	**-**
Maturity Up to 1 year	3 514	3 508	66	3 574	-
Maturity above 1 year	22	23	1	24	-
	3 140 236	**2 735 338**	**39 558**	**2 774 896**	**-**
Held-for-trading assets					
Portugal	126 208	120 458	3 394	123 852	-
Spain	-	-	-	-	-
	126 208	**120 458**	**3 394**	**123 852**	**-**

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 Bank 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 Bank 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.

Even in an unfavorable environment, the Bank 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 Bank objectives in terms of liquidity risk management.

The Bank prepares specific reports that allow the identification of negative mismatch and permits their dynamic coverage.

In addition, the Bank calculates the liquidity ratios in accordance with the Bank of Portugal rules (Instruction 13/2009):

(in thousands of euro)

	31.12.2011	31.12.2010
Accumulated mismatch (1)	1 683	(2 539)
Net assets buffer (2)	1 877	4 512
Liquidity position	**3 560**	**1 973**
Other assets acceptable as collateral	222	1 491
Global liquidity	**3 782**	**3 464**

(1) Accumulated mismatch corresponds to the diference between assets and liabilities with maturity date less than one year.

(2) The net assets buffer reflects the assets with maturity over one year that can be given as collateral to obtain liquidity, namelly assets that can be given as collateral on loan operations with Central Banks (less haircuts), excluding those assets which are being used as collateral for loan operations with maturity of over one year.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviours, information systems and external events.

To manage operational risk, it was developed and implemented a system that standardizes, systematizes and regulates the frequency of actions with the objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Capital management and solvability ratio

The main goals from capital management are to allow the adequate growth of activities through the generation of enough capital to support the increase of assets, fulfilment of the minimum requirements defined by the supervision authorities in terms of capital adequacy and to ensure the fulfilment of the Banks strategic goals in respect to capital adequacy matters.

The definition of the strategy in terms of capital adequacy is made by the Executive Committee and is integrated in the global goals of the Bank.

The Bank is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the prudential rules to be attended by the institutions under its supervision. These rules determine a minimum solvability ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

In the scope of the implementation of the new capital accord Basel II, and using the permission granted by the new prudential regime established by Decree-Law 103/2007 and Decree-Law 104/2007, the Bank 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 are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

- Own funds considered as Core Tier I: This category includes primarily 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.

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:

(thousands of euro)

	31.12.2011	31.12.2010
Balance as at 1 January	**5 331**	**4 459**
Capital increase	521	-
Hybrid instruments	(623)	868
Retain profit for the year	(127)	109
Changes on actuarial losses	170	(182)
Recognition of the impact of adopting IFRS	(11)	(11)
Deduction inconnection with investments held in banking and insurance entities	138	108
Intangible assets	2	(15)
Fair value reserves	(5)	3
Other effects	(1)	(8)
Balance as at 31 December	**5 395**	**5 331**

The capital adequacy of BES as at 31 December 2011 and 2010 is presented as follow:

(in million of euro)

		31.12.2011	31.12.2010
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		5 100	4 580
Elegible reserves and retained earnings (excluding fair value reserves)		528	655
Intangible assets		(118)	(120)
Changes on actuarial Losses		(245)	(415)
Fair value reserves with an impact on BOF		(10)	(5)
Recognition of the impact of adopting IFRS		23	34
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**5 278**	**4 729**
Hybrid instuments		245	868
Deductions in connection with investments held in banking and insurance entities		(128)	(266)
Basic own funds (Tier I)	**(A2)**	**5 395**	**5 331**
Positive fair value reserves (45%)		16	44
Eligible subordinated debt		867	1 862
Deductions in connection with investments held in banking and insurance entities		(104)	(179)
Complementary own funds (Tier II)		**779**	**1 727**
Deductions		(110)	(105)
Eligible own funds	**(A3)**	**6 064**	**6 953**
B - Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		56 324	53 480
Calculated according Notice 8/2007 (Market Risk)		682	2 025
Calculated according Notice 9/2007 (Operational Risk)		2 306	2 306
Risk Weighted Assets Total	**(B)**	**59 312**	**57 811**
C - Prudential Ratios			
Core Tier 1	(A1 / B)	8.9%	8.2%
Tier 1	(A2 / B)	9.1%	9.2%
Solvency Ratio	**(A3 / B)**	**10.2%**	**12.0%**

NOTE 45 – 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 Bank 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 46 – CHANGES IN ACCOUNTING POLICIES

At the end of the year 2011, BES 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 Bank'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 Bank financial statements as if the Bank had always adopted the recognition directly in share capital of actuarial gains and losses.

Therefore, we present below the adjustments made to the Bank’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	1 686 023	-	1 686 023	488 677	-	488 677
Deposits with banks	322 297	-	322 297	262 986	-	262 986
Financial assets held for trading	3 344 104	-	3 344 104	2 077 134	-	2 077 134
Other financial assets at fair value through profit or loss	922 558	-	922 558	1 780 171	-	1 780 171
Available-for-sale financial assets	7 174 460	-	7 174 460	12 094 262	-	12 094 262
Loans and advances to banks	12 048 539	-	12 048 539	8 472 098	-	8 472 098
Loans and advances to customers	40 379 161	-	40 379 161	41 095 813	-	41 095 813
Held-to-maturity investments	2 034 947	-	2 034 947	1 669 268	-	1 669 268
Derivatives for risk management purposes	579 895	-	579 895	499 544	-	499 544
Non-current assets held for sale	348 740	-	348 740	529 586	-	529 586
Property and equipment	402 935	-	402 935	379 541	-	379 541
Intangible assets	104 988	-	104 988	120 190	-	120 190
Investments in associates	1 700 598	-	1 700 598	1 776 600	-	1 776 600
Current income tax assets	5 009	-	5 009	77 669	-	77 669
Deferred income tax assets	336 877	243 038	579 915	403 621	257 143	660 764
Other assets	3 324 179	(838 061)	2 486 118	4 236 713	(886 625)	3 350 088
Total Assets	**74 715 310**	**(595 023)**	**74 120 287**	**75 963 873**	**(629 482)**	**75 334 391**
Liabilities						
Deposits from central banks	3 378 514	-	3 378 514	7 391 791	-	7 391 791
Financial liabilities held for trading	1 361 876	-	1 361 876	1 658 661	-	1 658 661
Deposits from banks	11 560 867	-	11 560 867	13 565 577	-	13 565 577
Due to customers	22 594 175	-	22 594 175	26 591 014	-	26 591 014
Debt securities issued	24 984 918	-	24 984 918	14 054 753	-	14 054 753
Derivatives for risk management purposes				2 043 754		2 043 754
Non-current liabilities held for sale	370 338	-	370 338	277 407	-	277 407
Provisions	627 174	-	627 174	628 489	-	628 489
Current income tax liabilities	108 447	-	108 447	2 871	-	2 871
Deferred income tax liabilities	185 109	-	185 109	154 794	-	154 794
Subordinated debt	3 419 742	-	3 419 742	2 504 508	-	2 504 508
Other liabilities	613 200	-	613 200	832 674	-	832 674
Total Liabilities	**69 204 360**	**-**	**69 204 360**	**69 706 293**	**-**	**69 706 293**
Equity						
Share capital	3 500 000	-	3 500 000	3 500 000	-	3 500 000
Share premium	1 080 258	-	1 080 258	1 080 257	-	1 080 257
Other equity instruments	-	-	-	868 193	-	868 193
Treasury stock	(25 083)	-	(25 083)	-	-	-
Other reserves, retained earnings and other comprehensive income	955 775	(595 023)	360 752	553 133	(672 289)	(119 156)
Profit for the period attributable to equity holders of the Bank	-	-	-	255 997	42 807	298 804
Total Equity	**5 510 950**	**(595 023)**	**4 915 927**	**6 257 580**	**(629 482)**	**5 628 098**
Total Equity and Liabilities	**74 715 310**	**(595 023)**	**74 120 287**	**75 963 873**	**(629 482)**	**75 334 391**

(thousands of euro)

Income Statement	31 December 2010		
	Reported	Adjusted	Restated
Interest and similar income	2 698 091	-	2 698 091
Interest expense and similar charges	2 035 732	-	2 035 732
Net interest income	**662 359**	**-**	**662 359**
Dividend income	319 083	-	319 083
Fee and commission income	626 386	-	626 386
Fee and commission expenses	(146 407)	-	(146 407)
Net gains/ (losses) from financial assets and financial liabilities at fair value through profit or l	(282 351)	-	(282 351)
Net gains from available-for-sale financial assets	330 410	-	330 410
Net gains from foreign exchange differences	(15 860)	-	(15 860)
Net gains/ (losses) from the sale of other assets	(12 101)	-	(12 101)
Other operating income and expense	23 600	-	23 600
Operating income	**1 505 119**	**-**	**1 505 119**
Staff costs	435 286	(42 807)	392 479
General and administrative expenses	344 918	-	344 918
Depreciation and amortisation	81 687	-	81 687
Provisions net of reversals	17 406	-	17 406
Loans impairment net of reversals and recoveries	301 992	-	301 992
Impairment on other financial assets net of reversals and recoveries	66 830	-	66 830
Impairment on other assets net of reversals and recoveries	57 450	-	57 450
Operating expenses	**1 305 569**	**(42 807)**	**1 262 762**
Gains on disposal of investments in subsidiaries and associates	-	-	-
Profit before income tax	**199 550**	**42 807**	**242 357**
Income tax			
Current tax	5 744	-	5 744
Deferred tax	(62 191)	-	(62 191)
Profit for the period	**255 997**	**42 807**	**298 804**

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	**255 997**	**42 807**	**298 804**
Other comprehensive income for the period			
Long-term benefits	-	(77 266)	(77 266)
Pensions - Transitory regime	(12 879)	-	(12 879)
	(12 879)	(77 266)	(90 145)
Available-for-sale financial assets			
Gains/ (losses) arising during the period	69 282	-	69 282
Reclassification adjustments for gains/ (losses) included in the profit or loss	(309 430)	-	(309 430)
Deferred taxes	34 999	-	34 999
	(205 149)	-	(205 149)
Total comprehensive income/(loss) for the period	**37 969**	**(34 459)**	**3 510**

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	838 061	(838 061)	(838 061)	-
Actuarial losses for the period	91 371	(91 371)	(91 371)	-
Amortisation for the period	(42 807)	42 807	-	42 807
Others	-	-	-	-
31 December 2010	886 625	(886 625)	(929 432)	42 807
Tax				
1 January 2010		243 038	243 038	-
Tax for the period		14 105	14 105	-
31 December 2010		257 143	257 143	-
Net effect				
1 January 2010		(595 023)	(595 023)	-
31 December 2010		(629 482)	(672 289)	42 807

NOTE 47 – 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 Bank 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 Bank 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 Bank 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 Bank has not yet applied are analysed bellow. The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank is currently evaluating the impact of the adoption of this amendment.

NOTE 48 – 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.

6. Auditors' Report

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AUDITORS' REPORT

(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 Auditors' Report on the financial information included in the Report of the Board of Directors and in the accompanying financial statements as at and for the year ended 31 December 2011, of **Banco Espírito Santo, S.A.**, which comprise the balance sheet as at 31 December 2011 (showing total assets of Euro 74,086,641 thousand and total equity of Euro 5,171,482 thousand, including a net loss of Euro 133,089 thousand), the 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 financial statements in accordance with the Adjusted Accounting Standards ("NCA") issued by the Bank of Portugal, which are based on the application of International Financial Reporting Standards ("IFRS") as adopted by the European Union, with exception of the issues defined in n. 2 and n. 3 of Regulation no. 1/2005 and n. 2 of Regulation n. 4/2005 both issued by the Bank of Portugal, that present fairly, in all material respects, the financial position of the Bank, the results of its operations, comprehensive income, changes in equity and its cash flows;

b) maintaining historical financial information prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

e) the communication of any relevant matter that may have influenced the activity of the bank, its financial position or results.

3. Our responsibility is to verify the financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the "Código dos Valores Mobiliários", in order to issue a professional and independent report based on our audit.

Scope

4. We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly our audit included:

- 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;
- evaluating the appropriateness of the accounting principles used and of their disclosure, taking into account the applicable circumstances;
- assessing the applicability of the going concern basis of accounting;
- assessment of the appropriateness of the overall presentation of the financial statements; and
- assessment of whether the financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the financial information included in the Board of Directors report is consistent with the 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 financial statements referred to above present fairly, in all material respects, the financial position of **Banco Espírito Santo, S.A.** as at 31 December 2011, the results of its operations, changes in equity and its cash flows for the year then ended in accordance with the Adjusted Accounting Standards defined by the Bank of Portugal, 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 financial information included in the Executive Board of Directors report is consistent with the 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)