



Banco Best, S.A.

Annual Report 2010



Personal Investments Worldwide

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INDEX:

	PAGE
1. Management Report	3
2. Income Statement	16
3. Balance Sheet	18
4. Statement of Changes in Shareholders' Equity	19
5. Cash Flow Statement	20
6. Notes to the Financial Statements	21
7. ANNEX - Adoption of Financial Stability Forum (FSF) recommendations and the Committee of European Banking Supervisors (CEBS) relative to Information Transparency and Asset Valuation	84
8. ANNEX – remuneration policy for the members of the corporate bodies of BEST and Compliance Statement	87
9. Issue of Statutory Audit Certificate	103
10. Supervisory Board Report and Opinion	105



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Management Report – 2010

Banco Best, founded in 2001, has a wide range of products and services as universal bank, supporting its clients in the identification of savings solutions and available investment opportunities, as well as in all aspects related to their financial needs and management. With a strong technological nature and open architecture, Banco Best also offers a set of services that allow clients to have the best of the new information technologies on internet, namely a faster and more efficient treatment of processes and transactions and the access to innovative services that smooth the relationship between the clients and the Bank.

The bank business strategy is therefore focused on serving the investment needs of a private clients' market segment that has a need for more sophisticated and diversified financial services but at the same time covering their financial needs for buying a house or other goods and services. Clients such as companies and foundations can also use this business strategy.

The bank has a share capital of EUR 63 million and its shareholders are mostly Grupo Banco Espírito Santo (GBES) companies, and Espírito Santo Financial Group.

Banco Best is headquartered in Lisbon, Praça Marquês de Pombal and does not have ordinary branches, therefore its financial products and services are provided on a large number of channels such as:

- Internet, through *Website* (www.bancobest.pt) and *Mobile Banking*;
- Investment Centers located in Lisbon, Oporto, Braga, Aveiro, Leiria, Évora and Faro, that have a *Personal Financial Advisors* (PFA) network;
- *Contact Center* (*Phone Banking*).

In addition, Banco Best also has a network of promoters and financial agents, called *Financial Advisors* (FA's) that work as service providers and according to the legal dispositions on the subject. Some of these *Financial Advisors* have their own offices identified as "PFA Offices" where they develop their activity as per the suitable legal dispositions.



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I – Economical Overview

Following the recovery of most of the financial markets in 2009, after the significant falls of most of the indexes in the two previous years, the year of 2010 has revealed the sustainability of the global economical recovery, with the emerging markets economies keeping high levels of activity growth and the developed countries economies succeeding in avoiding going back to economical recession, a scenario that was feared at the beginning of the year. Still, the outcome of problems with public accounts sustainability in some Euro zone peripheral economies and the subsequent need for external intervention in countries like Greece and Ireland have strongly conditioned the financial assets performance in those countries. 2010 is marked by the significant differences of the stock markets performance in the various regions, where Europe's more central markets (like Germany and France) registered significant indexes increasing whereas countries like Greece and Ireland, and also Portugal and Spain, have registered relevant decreases in their indexes.

The emerging countries also registered significant differences in their performance, although their indexes return has been in average superior to 15%. On the other hand this average hides highly positive performances of countries like India or Russia while the Chinese stock market has registered falls around 20% throughout the year. This difference in the performance is explained by the fears of the Chinese economy overheating and the measures (mainly at a monetary level) taken to stop that overheating. Another issue that came up in 2010 was the fear of an inflation increase, especially in the emerging economies, mostly explained by the raw materials price increase along the year, mainly in the energy parts and food sectors that represent a comparatively greater weight in the consumption of the emerging economies than in the developed ones. Also with great weight during 2010 was the need to strengthen the requirement levels of regulation of the international financial sector, on account of the crisis started in 2007, by applying stress tests to those credit institutions more representative of a set of countries, and through the agreement about new and more demanding financial industry solvability rules to be applied during the next years.

II – Operations in 2010

At the beginning of the year BEST has launched its new website. This is one of the most innovative financial sites worldwide that allowed the development of a concept connecting online functionalities usability with the products, and banking, and financial services own characteristics. At the end of the first



Personal Investments Worldwide

quarter this concept attained a higher importance with the launching of a time deposit in which the interests will be credited to the client at the beginning date instead of at the end date, as usual. The securities online trading was also improved through the update and renovation of the trading platform, where a Quick Trade tool was added following the provision of an ETF negotiation engine through Morningstar, as well as the reinforcement of the mobile banking platform functionalities.

This set of innovations has allowed BEST's clients a wider and easier online utilization of the available products and services functionalities, which was translated into a 17% growth of the online term deposits and also into a 30% growth in the volume of investment funds negotiated online. Thus, 2010 registered a 24% growth in the investment funds clients' portfolio, chosen from the wide offer of 1800 investment funds currently available at Banco Best.

It was in this scenario of continued recovery of the financial markets and greater regulatory demands that Banco Best has developed its activity and pursued its strategy of continuous improvement of the service levels and of availability of products and services adjusted to the new economical and financial realities. BEST registered progresses in the main indicators, not only in the clients assets volume that grew 14% and reached 1.673 million Euro at the end of 2010, but also in the granted credit that reached 98 million Euro in December 2010 with a growth of 61% versus the previous year.

During 2010, and in terms of liquidity, BEST kept a comfortable level, in spite of the historically low level of the interest rates, showing a global growth of 12% in the deposits volume. Regarding assets the transformation ratio of deposits into credits remained at a low and controlled level of 27%.

In the investment funds area BEST kept its widening and diversification strategy in terms of fund management companies and funds offer by distributing around 1800 investment funds from 45 fund management companies into the retail market, and over 3200 funds into the institutional – International Wholesale market. Four new fund management companies (Bradesco Asset Management, Júpiter, GLG and UBAM) were introduced in Portugal by Banco Best. This strategy, together with a positive evolution of the main stock indexes, has created a favorable environment to the clients' asset mix in the way of the funds investment growth.

This way, and according to CMVM data regarding 2010, Banco Best kept the leadership of the foreign funds distribution in Portugal, with a market quota of 30.4% (recently published data regarding 3rd quarter of 2010).



Personal Investments Worldwide

On the other hand there was a slight change in the type of investment funds more subscribed by the clients where the funds more related to the stocks and bonds market gained more importance to the clients throughout 2010 while the money market funds suffered a slight reduction in their importance. In spite of this evolution, the weight of this component in the total of commissions and services income in 2010 rose to 30% of total.

As for the Portfolio Management Service it allowed to reach a positive and interesting profitability in all the commercialized profiles being above the benchmark used in the more conservative profiles. This happened due to a market context more stable than the previous year together with a defensive and prudent management policy, seeking to combine the capital preservation and the controlled risks assumption.

The generally more favorable financial markets scenario and, in case of Portugal the public debt sector dynamics with a growth of 219% and the private debt with a growth of 47%, allowed the trading activity to register a growth of 41% versus the previous year in the global negotiation volumes during 2010 in Portugal. Nevertheless, in the market sector where Banco Best develops its activity, i.e., the orders received online, the negotiated volumes suffered a reduction of around 3%. BEST's market share suffered a slight drop to 7,9%, a direct consequence of BEST not having participated in the prices war started by other market operators. Also in Best Trading Pro service, a specialized online trading service developed in partnership with Saxo Bank, there was a drop in the market share to 22% in 2010, consequence of new competitors that entered the Portuguese market. All combined, the trading activity income represented around 46% of the commissions and services income in 2010.

The products Collateralized Credit and Margin Account were the main growth source of BEST's Assets with a growth of 37 million Euros versus 2009 year end. The credit granting based on the risk analysis and scoring models of Grupo Banco Espírito Santo (GBES) allowed this strong assets growth with a reduced level of incidents, thus settling the due credit ratio over the granted credit to improve in 2010, dropping from 1,6% to 0,8% in December 2010.

With the aim to diversify and complement its products offer, Banco Best also offers mortgage products to its clients in the same model as GBES. These product lines have no impact in BEST's Assets being simply a complementary client service offer (*one stop shopping*).

Throughout 2010 Banco Best kept its policy of diversification of the business lines with the increment of the business area related to asset management of a set of international institutional clients. The new business area has specific technological tools specially developed for the purpose as well as a



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personalized offer of products and services of operating support and several highly important clients, which represented 195 million Euros of assets under custody and 68 million Euros of loans at the end of 2010.

As for Means of Payment , BEST made the SMS Guardi an service free to all credit card transactions above 75 Euros. This service allows an increase of security while using the credit card by sending an SMS to the client's mobile immediately after each buy and it has already been awarded in the 2009 OSCARDS 4th Edition. The SMS Guardian service offer to all BEST credit cards coexists with the offer of a range of cards: cards free of annuity if a minimum number of transactions are performed, the iSavings cards associated to a program of automatic savings in benefit of the client, and cards associated to the TAP Victoria loyalty program by earning miles, being this last one the globally wider miles partnership.

During 2010 Banco Best's investments in the IT Department allowed mainly the launch of BEST Website new version and the strengthening of the specific platforms for the Wholesale and International areas, which will support the international growth of BEST. This growth is possible through several agreements in which BEST supplies to Saxo Bank the online platform of asset management products to be distributed to their clients in a white label logic and in selected countries.

With a strong focus on the internal and external training, as in previous years, BEST set and met with a successful external training sessions program in 2010, organizing seminars opened to clients and others as well as to journalists. These seminars were mainly of financial subjects, focused in a pedagogical approach and aiming to contribute to a stronger financial literacy of the participants. They took place from North to South of Portugal, in BEST investment centers or hotels and Associations conference rooms and were free to all participants.

As for internal training programs the focus during 2010 was in the commercial and the product area, seeking to accompany the changes and challenges that characterize the financial markets at present. In order to consolidate the internal procedures efficiency there were also some training sessions about management control. In total, over 6,4 thousand hours of training in various areas were given to our employees.

In the Statement of Accounts of 2010 one can highlight the 2% volume reduction in the term deposits versus the previous year, mainly due to the macro-economical risk reduction and the low market interest rates. It is also to be referred the 26% clients' deposits growth resulting from capital management



Personal Investments Worldwide

towards investments. In what Net Assets are concerned the Bank reduced the volume of investment in bonds in about 68 million Euros, making up for the clients' credit rise of 37 million Euros and investments in other credit institutions increment of 43 million Euros. This represents a 2% growth of the Net Assets versus last year with a total of 462 million Euros.

The portfolio reduction, the market low interest rates and the reduction of the interest margin in the passive operations altogether had direct impact on the Net Interest Income reduction versus the previous year, resulting from the combined effect of the interest income reduction and similar profits and the interest costs and similar costs.

The portfolio management activity performed better in 2010 than the previous year, mainly due to an improvement of the financial markets performance when compared to the last two years that led to the bonds valuation and, together with the Exchange results, gained within a more favorable context of Exchange volatility of Euro against US dollar.

The 12% growth of the Net Income in 2010 was mainly due to the results from the new Wholesale and International business areas with their specialized services.

The operating costs reduction was possible due to a 8% cut back in the personnel costs, representing a reduction of 0,5 million Euros versus the previous year. These savings offsetted the increase of the IT costs related to the new website and to the developments for the Saxo Bank partnership platform, also with the goal to supply the bank with more efficient and competitive tools.

The taxes over profits increased 72% due to the changes in the fiscal scenario throughout the year ending on the political crisis created by the Stability and Growth Programme. BEST continued to use the tax deductions for settlement of tax losses from previous years related to the initial investment and launching of Banco Best.

In short, Banco Best 2010 Net Profit was of 5,8 million Euros, representing a 27% growth versus last year.

III – Shareholders and Corporate Bodies

The Shareholders of Banco Best suffered no changes this year, being:



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BEST - Shareholders

Shareholders	Referring to 31.Dec.2010	
	No. Of shares	%
Espírito Santo Tech Ventures, SGPS, SA	21 398 220	33.97%
Banco Espírito Santo, SA	20 181 680	32.03%
Saxo Bank A/S	15 750 000	25.00%
Espírito Santo Financial Group, SA	5 670 000	9.00%
Banco Espírito Santo de Investimento, SA	100	0.00%
Total	63 000 000	100.00%

The **Corporate Bodies** for the three-year period 2010-2012 were appointed at BEST's Annual General Meeting held on 26th March 2010. The new shareholder Saxo Bank appointed 2 non-executive members and the Secretary of the Shareholders Meeting Board.

BEST Corporate Bodies for the three-year period are as follows:

Board of the Shareholders Meeting

Rui Manuel Duarte Sousa da Silveira (Chairman)

Henrik Klæbel (Secretary)

Board of Directors

Ricardo Espírito Santo Silva Salgado (Chairman)

Isabel Maria Ferreira Possantes Rodrigues Cascão (Vice-Chairman)

Marília Boavida Correia Cabral (Member)

Pedro Alexandre Lemos Cabral das Neves (Member)

Isabel Maria Carvalho de Almeida Bernardino (Member)

Ana Rita Gomes Barosa (Member)

Stig Pastwa (Member)

Enrique Finkelstein (Member)

Audit Board

Dr. José Manuel Macedo Pereira (Chairman)

Dr. Luís Manuel dos Santos Botelho (Member)

Dr. Elísio Armando da Cruz Cardoso (Member)

Dr. Paulo Alexandre Nunes Nogueira (Alternative Member)



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Statutory Auditor

KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., (Statutory Audit Firm) represented by Fernando Gustavo Duarte Antunes, statutory auditor number 1233. (Permanent)
Jean-Eric Gaign, statutory auditor number 1013 (Alternative)

The activity of the new Members of the Corporate Bodies became effective after registration at the Bank of Portugal on 30th April 2010.

IV – Relevant Facts

None.

V – Outlook

The current economical scenario is sometimes inconsistent but mainly going towards a recovery with the help of the emerging economies, in spite of the *de-leveraging*' and *de-risking* phenomena in the developed countries. We all agree that the financial sector will continue to suffer with the increase of the norms and regulations, either national or international, which, together with the difficulties felt by most of the economical agents, will tend to create some obstacles to the growth and innovation of the financial activity during the next few years.

Given the macro-economical context in which Banco Best is and also the kind of competencies on which it supports its development, the following vectors will be the basis of its future activity:

- Diversification and independence of the financial offer, keeping a wide range of products but also a more specific one in terms of Asset Management and Trading services and products, continuing to add to this wide range offers of Banks and Management Companies that have interest to BEST's clients;
- Cross-selling increment mainly through the refinement of the credit offer by marketing its own products like the personal credit, collateralized credit and margin account, these last ones adjusted to the Asset Management and Trading activity, and also by marketing BES complementary products like Mortgage;
- Continuous improvement of the *cross-channel* distribution with the purpose of marketing the financial, banking and insurance products more effectively and fine tuning the distance interaction



Personal Investments Worldwide

through the Web and CC, in order to “be closer even far away”;

- International expansion executed in two ways: directly by Banco Best and together with Saxo Bank.

This way, and concerning the activity expectations for 2011, the costs control effort is to be kept at the same time keeping the investment on the development of the IT platform to support the future national and international development and expansion of Banco Best.

Banco Best's activity profile in the Asset Management area, where credit is mainly granted based on financial collaterals, allows the bank not to be constrained by the current lack of liquidity of the Portuguese market. It is expected that the transformation ratio of deposits into credit will remain at 30%.

VI – Proposal for the allocation of results

As per the Societies Code regulations it is proposed to the Shareholders General Meeting the approval of the net profits totaling 5 829 272,66 Euros (five million, eight hundred and twenty nine thousand, two hundred and seventy two and sixty six cents) positive to be allocated as follows:

- 582 928,00 Euros for the Legal Reserve
- 5 246 344,66 Euros of retained earnings to partially offset former years losses.

VII – Concluding remarks

While concluding its Management Report for 2010, the Board of Directors wishes to express its recognition of the cooperation of all who have contributed towards achieving the established goals, in the performance of their duties:

- The monetary and financial authorities and supervisory bodies, notably the Bank of Portugal, Securities Market Commission and Portuguese Insurance Institute for their permanent collaboration and support;
- Our customers for their trust and preference;
- Our shareholders for their constant support and interest in the activity of the bank;
- The Shareholders Meeting Board Members, the Audit Board and the Statutory Auditor for their permanently constructive involvement;
- The Corporate Bodies Members that ceased their activities in the General Meeting held on 26th



Personal Investments Worldwide

March 2010, Mr. Joaquim Manuel Jordão Sérvulo Rodrigues and Mrs. Maria Madalena França e Silva de Quintanilha Mantas Moura for their contribution to the development of Banco Best;

- Employees for their commitment, motivation, willingness and professional competence.

Lisbon, 14th March 2011

Board of Directors:

Ricardo Espírito Santo Silva Salgado

Isabel Maria Ferreira Possantes Rodrigues Cascão

Isabel Maria Carvalho de Almeida Bernardino

Ana Rita Gomes Barosa

Stig Pastwa

Enrique Finkelstein

Marília Boavida Correia Cabral

Pedro Alexandre Lemos Cabral das Neves

BANCO ELECTRÓNICO DE SERVIÇO TOTAL

BALANÇO EM 31 DE DEZEMBRO DE 2010

(em milhares de euro)

BALANÇO	ANO			ANO ANTERIOR
	VALOR ANTES DE PROVISÕES, IMPARIDADE E AMORTIZAÇÕES	PROVISÕES, IMPARIDADE E AMORTIZAÇÕES	VALOR LÍQUIDO	
ACTIVO				
1.Caixa e disponibilidades em bancos centrais.....	0	0	0	0
2.Disponibilidades em outras instituições de crédito.....	49 717	0	49 717	22 250
3.Activos financeiros detidos para negociação.....	582	0	582	441
4.Outros activos financeiros ao justo valor através de resultados.....	825	0	825	787
5.Activos financeiros disponíveis para venda.....	214 619	167	214 452	278 551
6.Aplicações em instituições de crédito.....	80 191	0	80 191	64 420
7.Crédito a clientes.....	97 779	907	96 872	60 012
8.Investimentos detidos até à maturidade.....	15 697	1 249	14 448	18 587
9.Activos com acordo de recompra.....	0	0	0	0
10.Derivados de cobertura.....	78	0	78	690
11.Activos não correntes detidos para venda.....	0	0	0	0
12.Propriedades de investimento.....	0	0	0	0
13.Outros activos tangíveis.....	4 390	2 331	2 059	2 388
14.Activos intangíveis.....	11 097	10 736	361	1 119
15.Investimentos em filiais, associadas e empreendimentos conjuntos.....	0	0	0	0
16.Activos por impostos correntes.....	212	0	212	197
17.Activos por impostos diferidos.....	0	0	0	0
18.Outros activos.....	2 480	0	2 480	1 967
TOTAL DO ACTIVO	477 667	15 390	462 277	451 409
PASSIVO				
1.Recursos de bancos centrais.....	0	0	0	0
2.Passivos financeiros detidos para negociação.....	150	0	150	175
3.Outros passivos financeiros ao justo valor através de resultados.....	0	0	0	0
4.Recursos de outras instituições de crédito.....	62 495	0	62 495	94 486
5.Recursos de clientes e outros empréstimos.....	354 057	0	354 057	315 221
6.Responsabilidades representadas por títulos.....	0	0	0	0
7.Passivos financeiros associados a activos transferidos.....	0	0	0	0
8.Derivados de cobertura.....	6 602	0	6 602	7 889
9.Passivos não correntes detidos para venda.....	0	0	0	0
10.Provisões.....	1 190	0	1 190	769
11.Passivos por impostos correntes.....	220	0	220	144
12.Passivos por impostos diferidos.....	0	0	0	0
13.Instrumentos representativos de capital.....	0	0	0	0
14.Outros passivos subordinados.....	0	0	0	0
15.Outros passivos.....	3 995	0	3 995	5 002
TOTAL DO PASSIVO	428 709	0	428 709	423 686
CAPITAL				
16.Capital.....	63 000	0	63 000	63 000
17.Prémios de emissão.....	-8	0	-8	-8
18.Outros instrumentos de capital.....	0	0	0	0
19.Acções próprias.....	0	0	0	0
20.Reservas de reavaliação.....	-2 761	0	-2 761	-2 777
21.Outras reservas e resultados transitados.....	-32 492	0	-32 492	-37 068
22.Resultado do exercício.....	5 829	0	5 829	4 576
23.Dividendos antecipados.....	0	0	0	0
TOTAL DO CAPITAL	33 568	0	33 568	27 723
TOTAL DO PASSIVO + CAPITAL	462 277	0	462 277	451 409

BANCO ELECTRÓNICO DE SERVIÇO TOTAL

DEMONSTRAÇÃO DE RESULTADOS EM 31 DE DEZEMBRO DE 2010

(em milhares de euro)

DEMONSTRAÇÃO DE RESULTADOS	A N O	ANO ANTERIOR
1. Juros e rendimentos similares.....	8 711	18 575
2. Juros e encargos similares.....	4 604	12 331
Margem Financeira	4 107	6 244
3. Rendimentos de instrumentos de capital.....	29	25
4. Rendimentos de serviços e comissões.....	12 796	9 414
5. Encargos com serviços e comissões.....	3 625	2 662
6. Resultados de activos e passivos avaliados ao justo valor através de resultados.....	976	5 390
7. Resultados de activos financeiros disponíveis para venda.....	232	533
8. Resultados de reavaliação cambial.....	11 724	4 905
9. Resultados de alienação de outros activos.....	0	0
10. Outros resultados de exploração.....	933	426
Produto bancário	27 172	24 275
11. Custos com pessoal.....	6 522	7 055
12. Gastos gerais administrativos.....	11 765	9 666
13. Amortizações do exercício.....	1 194	1 293
14. Provisões líquidas de reposições e anulações.....	422	440
15. Correções de valor associadas ao crédito a clientes e valores a receber de outros devedores (líquidas de reposições e anulações).....	237	303
16. Imparidade de outros activos financeiros líquida de reversões e recuperações.....	895	763
17. Imparidade de outros activos líquida de reversões e recuperações.....	0	0
Resultado antes de impostos	6 137	4 755
Impostos	308	179
18. Correntes.....	308	179
19. Diferidos.....	0	0
Resultado após impostos	5 829	4 576
Do qual: Resultado líquido após impostos de operações descontinuadas.....	0	0

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.

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

		(in thousands of euro)	
	Notes	31.12.2010	31.12.2009
Interest and similar income	5	8 711	18 575
Interest expense and similar charges	5	4 604	12 331
Net interest income		4 107	6 244
Dividend income		29	25
Fee and commission income	6	12 796	9 414
Fee and commission expenses	6	(3 625)	(2 662)
Net gains/ (losses) from financial assets and financial liabilities at fair value through profit or loss	7	976	5 390
Net gains from available-for-sale financial assets	8	232	533
Net gains from foreign exchange differences	9	11 724	4 905
Other operating income and expense	10	933	426
Operating income		27 172	24 275
Staff costs	11	6 522	7 055
General and administrative expenses	12	11 765	9 666
Depreciation and amortisation	22 and 23	1 194	1 293
Provisions net of reversals	27	422	440
Loans impairment net of reversals	19	237	303
Impairment on other financial assets net of reversals	17 and 20	895	763
Operating expenses		21 035	19 520
Profit before income tax		6 137	4 755
Income tax			
Current tax	28	308	179
Profit for the year		5 829	4 576
Earnings per share:			
Basic (in euro)	13	0.09	0.07
Diluted (in euro)	13	0.09	0.07

The following notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(in thousands of euro)

	31.12.2010	31.12.2009
Profit for the year	<u>5 829</u>	<u>4 576</u>
Other comprehensive income for the year, net from taxes		
Changes in fair value, net from taxes	<u>16</u>	<u>(812)</u>
	<u>16</u>	<u>(812)</u>
Total comprehensive income for the year	<u><u>5 845</u></u>	<u><u>3 764</u></u>

The following notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2010 AND 2009

(in thousands of euro)

	Notes	31.12.2010	31.12.2009
Assets			
Deposits with banks	14	49 717	22 250
Financial assets held for trading	15	582	441
Other financial assets at fair value through profit or loss	16	825	787
Available-for-sale financial assets	17	214 452	278 551
Loans and advances to banks	18	80 191	64 420
Loans and advances to customers	19	96 872	60 012
Held-to-maturity investments	20	14 448	18 587
Derivatives for risk management purposes	21	78	690
Property and equipment	22	2 059	2 388
Intangible assets	23	361	1 119
Current income tax assets	28	212	197
Other assets	24	2 480	1 967
Total Assets		462 277	451 409
Liabilities			
Financial liabilities held for trading	15	150	175
Deposits from banks	25	62 495	94 486
Due to customers	26	354 057	315 221
Derivatives for risk management purposes	21	6 602	7 889
Provisions	27	1 190	769
Current income tax liabilities	28	220	144
Other liabilities	29	3 995	5 002
Total Liabilities		428 709	423 686
Equity			
Share capital	30	63 000	63 000
Fair value reserve	31	(2 761)	(2 777)
Other reserves and retained earnings	31	(32 500)	(37 076)
Profit for the year		5 829	4 576
Total Equity		33 568	27 723
Total Equity and Liabilities		462 277	451 409

The following notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(in thousands of euro)

	Share Capital	Fair value reserve	Other reserves and retained earnings	Profit for the year	Total Equity
Balance as at 31 December 2008	63 000	(1 965)	(39 450)	2 374	23 959
Other movements recognised directly in E equity:					
Changes in fair value (see Note 31)	-	(812)	-	-	(812)
Profit for the year	-	-	-	4 576	4 576
Total gains and losses recognised in the year	-	(812)	-	4 576	3 764
Transfer to reserves and retained earnings	-	-	2 374	(2 374)	-
Balance as at 31 December 2009	63 000	(2 777)	(37 076)	4 576	27 723
Other movements recognised directly in E equity:					
Changes in fair value (see Note 31)	-	16	-	-	16
Profit for the year	-	-	-	5 829	5 829
Total gains and losses recognised in the year	-	16	-	5 829	5 845
Transfer to reserves and retained earnings	-	-	4 576	(4 576)	-
Balance as at 31 December 2010	63 000	(2 761)	(32 500)	5 829	33 568

The following notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVICIO TOTAL, S.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(in thousands of euro)

	Notes	31.12.2010	31.12.2009
Cash flow from operating activities			
Interest and similar income received		10 050	24 752
Interest expense and similar charges paid		(4 483)	(14 463)
Fees and commission received		12 796	9 414
Fees and commission paid		(3 625)	(2 662)
Cash payments to employees and suppliers		(19 182)	(14 897)
		(4 444)	2 144
<i>Changes in operating assets and liabilities:</i>			
Acquisitions of financial assets at fair value through profit or loss		7 852	(700 186)
Sale of financial assets at fair value through profit or loss		(7 586)	735 679
Loans and advances to banks		(15 850)	87 080
Deposits from banks		(32 183)	55 111
Loans and advances to customers		(36 884)	(25 839)
Due to customers		38 907	(216 029)
Derivatives for risk management purposes		(675)	(4 529)
Other operating assets and liabilities		821	22 375
Net cash from operating activities before income tax		(50 042)	(44 194)
Income taxes paid		(247)	(178)
		(50 289)	(44 372)
Net cash from investing activities			
Dividends received		29	25
Acquisition of available-for-sale financial assets		(159 420)	(68 327)
Sale of available-for-sale financial assets		221 948	80 515
Held to maturity investments		3 222	19 859
Acquisition of tangible and intangible assets		(107)	(574)
		65 672	31 498
Net changes in cash and cash equivalents		15 383	(12 874)
Cash and cash equivalents at the beginning of the year		15 483	23 452
Effect of exchange rate changes on cash and cash equivalents		11 724	4 905
Net changes in cash and cash equivalents		15 383	(12 874)
Cash and cash equivalents at the end of the year		42 590	15 483
Cash and cash equivalents includes:			
Deposits with banks	14	49 716	22 250
Mandatory deposits with Central banks ^(a)		(7 126)	(6 767)
Total		42 590	15 483

^(a) BEST mandatory reserves are constituted indirectly through Banco Espírito Santo, S.A (see Note 14)

The following notes form an integral part of these financial statements

BEST – Banco Electrónico de Serviço Total, S.A.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS AS AT 31 DE DEZEMBRO DE 2010

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

NOTE 1 – ACTIVITY

BEST – Banco Electrónico de Serviço Total, S.A. (Bank or BEST) is a commercial bank headquartered in Portugal. The Bank is authorised by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal.

BEST was established by public deed on 9 May 2001 with a share capital of euro 32 422 thousands, and began its activity on 25 June that year. In 2002 and 2003 BEST increased its share capital to euro 43 000 thousand and euro 55 000 thousand, respectively (see Note 30). In 2005, there was a new capital increase to euro 61 000 thousand and in 2006 there was an increase to euro 63 000 thousand.

The Bank is dedicated to raising funds from third parties, in the form of deposits or other funds, which, together with their own resources, invests in providing loans, securities and other assets. It also provides other banking services.

In order to combine the dynamism and innovative capacity of BEST and the experience of Banco Espírito Santo SA (BES), it was celebrated a contract in 2001 with BES, to ensure the functioning of the administrative and operational areas of BEST.

Since its establishment, the Bank is part of BES Group, being its financial statements fully consolidated by BES, headquartered in Avenida da Liberdade, n.º 195, Lisbon. Since 2009, BEST is consolidated by Saxo Bank by the equity method.

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 Electrónico de Serviço Total, S.A. (BEST 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 2010 were prepared in accordance with Adjusted Accounting Standards (NCA), which includes the IFRS adopted for use in the EU until 31 December 2010. The accounting policies applied by the Bank in the preparation of these financial statements as at 31 December 2010 are consistent with the ones used in the preparation of the annual financial statements as at and for the year ended 31 December 2009. However, as described in Note 36, in the preparation of the financial statements as at 31 December 2010, the Bank adopted the accounting standards issued by the IASB and the interpretations issued by the IFRIC effective since 1 January 2010. The accounting principles used by the Bank in the preparation of these financial statements, described in this note, were modified accordingly. The adoption of these new standards and interpretations by the Bank had no material impact in the Bank's financial statements.

The accounting standards and interpretations recently issued but not yet effective and that the Bank has not adopted in the preparation of its financial statements can be analysed in Note 36.

These financial statements are expressed in thousands of euro, except when indicated, 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 14 March 2011.

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.

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 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 21 includes a summary of the assets and liabilities that were classified at fair value through profit or loss at inception.

The structured products acquired by BEST 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 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 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.

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

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

During the years 2010 and 2009, there were no reclassifications between categories.

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 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 Bank establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

2.8. 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.

2.9. 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.

2.10. Property and equipment

Property and equipment are stated at deemed cost less accumulated depreciation and impairment losses. At the transition date to NCA, 1 January 2004, the Bank elected to consider as deemed cost, the revalue amount of property and equipment as determined in accordance with previous accounting policies of the Bank, which was broadly similar to depreciated cost measured under NCA adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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:

	<u>Number of years</u>
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.

2.11. 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.

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

2.12. 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.

2.13. Employee benefits

Variable remuneration payment plan

During the first semester of 2008, the Bank established a benefits payment scheme - Variable remuneration payment plan (PPRV – 2008/2010).

Under this incentive scheme, employees of the Bank have the right to a future cash payment, corresponding to the appreciation of BES shares above a pre-established price (strike price). In order to receive this payment, the employees have to remain in the Bank for a minimum period of three years.

This variable remuneration payment plan is within the scope of IFRS 2 – Share based payments and corresponds to a cash settlement share based payment. The fair value of this benefit plan at inception, determined at its grant date, will be taken to the income statement as staff costs over a period of three years. The recognised liability under the plan is re-measured at each balance sheet date, being the fair value changes recognised in the income statement.

Bonus to employee and to the Board of Directors

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

2.14. 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.

2.15. 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.

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.

2.16. 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.

2.17. Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act 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.

2.18. Dividend income

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

2.19. 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 (which are made through Banco Espírito Santo, S.A.).

2.20. 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.

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

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.

NOTE 4 – SEGMENT REPORTING

Considering that the Bank does not hold equity securities or debt securities publicly traded, in accordance with the paragraph 2 of the IFRS 8 - Operating Segments, the Bank does not provide information on the segments.

NOTE 5 – NET INTEREST INCOME

This balance is analysed as follows:

	31.12.2010			31.12.2009		
	Assets/Liabilities at Amortised Cost and Available-for- Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total	Assets/Liabilities at Amortised Cost and Available-for- Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total
(in thousands of euro)						
Interest and similar income						
Interest from available-for-sale financial assets	4 878	-	4 878	11 306	-	11 306
Interest from deposits with banks	643	-	643	2 051	-	2 051
Interest from loans and advances	2 399	-	2 399	1 961	-	1 961
Interest from financial assets at fair value through profit or loss	-	53	53	-	846	846
Interest from derivatives for risk management purposes	-	529	529	-	1 807	1 807
Interest from held-to-maturity financial assets	209	-	209	604	-	604
	<u>8 129</u>	<u>582</u>	<u>8 711</u>	<u>15 922</u>	<u>2 653</u>	<u>18 575</u>
Interest expense and similar charges						
Interest from amounts due to customers	3 403	27	3 430	9 615	181	9 796
Interest from deposits from central banks and other banks	606	-	606	374	-	374
Interest from derivatives for risk management purposes	-	568	568	-	2 161	2 161
	<u>4 009</u>	<u>595</u>	<u>4 604</u>	<u>9 989</u>	<u>2 342</u>	<u>12 331</u>
	4 120	(13)	4 107	5 933	311	6 244

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.3, 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 6 – NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

	31.12.2010		31.12.2009	
(in thousands of euro)				
Fee and commission income				
From banking services	8 239		5 989	
From transactions with securities	2 976		2 537	
From commitments assumed to third parties	-		1	
Other fee and commission income	1 581		887	
	<u>12 796</u>		<u>9 414</u>	
Fee and commission expenses				
From transactions with securities	744		972	
From banking services rendered by third parties	848		572	
Other fee and commission expenses	2 033		1 118	
	<u>3 625</u>		<u>2 662</u>	
	9 171		6 752	

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

	(in thousands of euro)					
	31.12.2010			31.12.2009		
	Gains	Losses	Total	Gains	Losses	Total
Derivative financial instruments						
Exchange rate contracts	1 221	924	297	1 381	1 711	(330)
Interest rate contracts	73	82	(9)	1 478	85	1 393
Equity/Index contracts	12 663	11 780	883	7 500	4 421	3 079
	13 957	12 786	1 171	10 359	6 217	4 142
Financial assets and liabilities at fair value through profit and loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	735	13	722	4 486	355	4 131
Financial liabilities ⁽¹⁾						
Due to customers	4 203	5 120	(917)	6 392	9 275	(2 883)
	4 938	5 133	(195)	10 878	9 630	1 248
	18 895	17 919	976	21 237	15 847	5 390

(1) Includes the fair value change of hedged of assets and liabilities at *fair value option*

NOTE 8 – NET GAINS FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance is analysed as follows:

	(in thousands of euro)					
	31.12.2010			31.12.2009		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by other entities	295	63	232	632	93	539
Shares	-	-	-	-	6	(6)
	295	63	232	632	99	533

NOTE 9 – NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

	(in thousands of euro)					
	31.12.2010			31.12.2009		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	16 702	4 978	11 724	8 723	3 818	4 905
	16 702	4 978	11 724	8 723	3 818	4 905

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 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

	(in thousand of euro)	
	31.12.2010	31.12.2009
Other operating income	1 796	1 963
Other operating expenses		
Direct and indirect taxes	67	78
Contributions to the Deposits Guarantee Fund	102	136
Membership and donations	2	7
Other	692	1 316
	<u>863</u>	<u>1 537</u>
	<u>933</u>	<u>426</u>

NOTE 11 – STAFF COSTS

This balance is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Wages and salaries	5 363	5 684
Mandatory social charges	1 060	1 192
Other costs	99	179
	<u>6 522</u>	<u>7 055</u>

The costs with salaries and other benefits attributed to the Board of Directors are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Board of Directors		
Salaries and other short-term benefits	262	255
Pension costs	34	30
Bonus	81	49
	377	334
Fiscal Board	5	-
	382	334

As at 31 December 2010, loans granted to the Board of Directors of the Bank amounted to euro 5 thousand (31 December 2009: euro 3 thousand).

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

	31.12.2010	31.12.2009
Senior management	19	18
Specific functions	117	115
Administrative functions	25	24
	161	157

Variable remuneration payment plan (PPRV)

During the first semester of 2008, BEST established a benefits payment scheme - Variable remuneration payment plan (PPRV – 2008/2010).

Under this incentive scheme, BEST employees have the right to a future cash payment equivalent to the appreciation of BES shares between the initial reference date and the final reference date. Such cash payment will only be payable in case of BES shares valorization. The PPRV is not a plan where stocks or stock options are granted to employees. Under this plan no rights are granted to employees equivalent to a shareholding in BES share capital.

In accordance with the accounting policy described in Note 2.13, the initial fair value of the PPRV, in the amount of euro 124 thousand, is being recognised during the three year period comprised between the initial and the final reference dates. As such, the Bank recognised during the year ended 31 December 2010, as staff costs, the amount of euro 41 thousand (31 December 2009: euro 41 thousand). The change in the fair

value of the benefit granted to employees during the life of the program will be recognised as a profit/loss from financial assets at fair value through profit or loss.

NOTE 12 – GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Advertising costs	2 490	2 133
Communication costs	1 101	650
Rental costs	1 435	636
Travelling and representation costs	335	325
Consumables	62	100
Water, energy and fuel	144	151
Transportation	20	24
Insurance costs	191	54
Maintenance and related services	41	55
Training	33	52
IT services	2 621	2 500
Legal costs	226	291
Database	-	2
Temporary work	53	68
Electronic payment systems	124	164
Security Services	3	6
Independent work	58	50
Call Center	895	815
Transfer of other resources	1 258	960
Other costs	675	630
	11 765	9 666

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

	(in thousands of euro)	
	31.12.2010	31.12.2009
Up to 1 year	226	285
1 to 5 years	116	332
	342	617

The fees invoiced during the years 2010 and 2009 by the statutory auditors are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Audit service fees	16	16
Other assurance services arising from the external audit function	23	17
Tax consultancy services	-	-
Other services	-	-
Total amount of invoiced services	39	33

NOTE 13 – EARNINGS PER SHARES

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)

	31.12.2010	31.12.2009
Profit attributable to the equity holders of the Bank	5 829	4 576
Weighted average number of ordinary shares outstanding (thousands)	63 000	63 000
Basic earnings per share attributable to equity holders of the Bank (in euro)	0.09	0.07

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 earnings per share as the Bank has no issued instruments with dilutive effect as at 31 December 2010 and 2009.

NOTE 14 – DEPOSITS WITH BANKS

As at 31 December 2010 and 2009, this balance is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Deposits with Banks in Portugal		
Repayable on demand	49 539	22 218
Uncollected cheques	178	32
	49 717	22 250

In accordance with article 10 of Regulation no 2818/98 of the European Central Bank and through the circular letter with reference no 204/DMRCF/DMC of 5 June 2001, the Bank of Portugal authorized BEST to constitute the mandatory reserves indirectly through Banco Espírito Santo, S.A. Monthly BEST settles through a deposit account in BES the amount concerning to the mandatory reserves to be constituted. As at 31 December 2010, deposits at Central Banks amounted to euro 7 126 thousand (31 December 2009: euro 6 767 thousand) and have earned interest at an average rate of 1.00% (31 December 2009: 1.31%).

Uncollected cheques in Portugal and abroad were sent for collection during the first working days following the reference dates.

NOTE 15 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2010 and 2009, this balance is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Financial assets held for trading		
Derivative financial instruments with positive fair value	582	441
Financial liabilities held for trading		
Derivatives financial instruments with negative fair value	150	175

As at 31 December 2010 and 2009, derivative financial instruments can be analysed as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Forward						
- buy	24 427	428	8	7 589	199	40
- sell	24 008			7 432		
Currency Options	-	-	-	1 835	78	-
	48 435	428	8	16 856	277	40
Interest rate contracts						
Interest Rate Swaps	2 200	13	-	2 200	22	-
Equity / Index contracts						
Equity / Index Options	528	141	142	528	142	135
TOTAL	51 163	582	150	19 584	441	175

As at 31 December 2010 and 2009, the analysis of trading derivatives by the period to maturity is presented as follows:

	(in thousands of euro)			
	31.12.2010		31.12.2009	
	Notional	Fair value	Notional	Fair value
Up to 3 months	48 262	410	16 524	231
3 to 12 months	701	9	166	3
1 to 5 years	2 200	13	2 894	32
	51 163	432	19 584	266

NOTE 16 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Bonds and other fixed income securities Issued by other entities	825	787
	825	787

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 2010 and 2009, the analysis of the financial assets at fair value through profit or loss by the period to maturity is presented as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
3 to 12 months	825	-
1 to 5 years	-	787
	825	787

Securities comprising the portfolio of financial assets at fair value through profit or loss are unquoted.

NOTE 17 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2010 and 2009, this balance is analysed as follows:

	(in thousands of euro)				
	Cost ⁽¹⁾	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	1 027	-	(51)	-	976
Issued by other entities	215 107	-	(2 183)	-	212 924
Shares	552	-	-	-	552
Other variable income securities	167	-	-	(167)	-
Balance as at 31 December 2010	216 853	-	(2 234)	(167)	214 452
Bonds and other fixed income securities					
Issued by government and public entities	561	19	-	-	580
Issued by other entities	279 379	182	(2 139)	-	277 422
Shares	549	-	-	-	549
Other variable income securities	167	-	-	(167)	-
Balance as at 31 December 2009	280 656	201	(2 139)	(167)	278 551

⁽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.

The balance available-for-sale financial assets includes euro 876 thousand (31 December 2009: euro 779 thousand) of securities pledged as collateral by the Bank. The details are analysed in Note 32.

During the year 2010 no changes occurred in impairment losses of available-for-sale financial assets.

As at 31 December 2010 and 2009, the analysis of available-for-sale assets by the period to maturity is presented as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Up to 3 months	754	2 246
3 to 12 months	55 011	32 535
1 to 5 years	155 328	234 009
More than 5 years	2 807	9 212
Undetermined	552	549
	21 4 452	278 551

The analysis of the available-for-sale financial assets, by quoted and unquoted securities, is presented as follows:

	31.12.2010			31.12.2009		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	976	-	976	580	-	580
Issued by other entities	2 765	21 015	21 2 924	43 866	233 556	277 422
Shares	3	549	552	-	549	549
	3 744	21 070	21 4 452	44 446	234 105	278 551

NOTE 18 – LOANS AND ADVANCES TO BANKS

As at 31 December 2010 and 2009, this balance is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Loans and advances to banks in Portugal		
Repayable on demand	32 277	27 367
Loans	6	27 045
Loans and advances to banks abroad		
Loans	24 127	10 008
Other loans and advances	23 781	-
	47 908	10 008
	80 191	64 420

The main loans and advances to banks in Portugal, as at 31 December 2010, bear interest at an average annual interest rate of 0.76% (31 December 2009: 1.66%).

As at 31 December 2010 and 2009, the analysis of loans and advances to banks by the period to maturity is presented as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Up to 3 months	53 996	36 432
3 to 12 months	23 968	25 788
1 to 5 years	2 206	2 200
Undetermined	21	-
	80 191	64 420

NOTE 19 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2010 and 2009, this balance is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Domestic loans		
Corporate		
Commercial lines of credit	33 372	23 201
Retail		
Consumer and other loans	59 517	33 589
	92 889	56 790
Foreign loans		
Retail		
Consumer and other loans	4 089	2 929
	4 089	2 929
Overdue loans and interest		
Up to 3 months	61	354
3 to 12 months	158	166
1 to 3 years	343	349
More than 3 years	238	106
	800	975
	97 778	60 694
Impairment losses	(906)	(682)
	96 872	60 012

The fair value of loans and advances to customers is presented in Note 34.

As at 31 December 2010 and 2009, the analysis of loans and advances to customers by the period to maturity is presented as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Up to 3 months	6 727	24 304
3 to 12 months	69 308	24 934
1 to 5 years	13 219	6 246
More than 5 years	7 724	4 235
Undetermined	800	975
	97 778	60 694

The changes occurred in impairment losses of loans and advances to customers are presented as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Balance at the beginning of the year	682	504
Charge for the year	419	417
Charge off	(13)	(125)
Write back for the year	(182)	(114)
Balance at the end of the year	906	682

Additionally, as at 31 December 2010, the Bank has a provision for general banking risks in the amount of euro 1 035 thousand (31 December 2009: euro 614 thousand), which in accordance to NCA is presented as a liability (see Note 27).

All loans and advances to customers granted by the Bank have a variable interest rate.

NOTE 20 – HELD-TO-MATURITY INVESTMENTS

The held-to-maturity investments, can be analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Bonds and other fixed income securities		
Issued by other entities	15 697	18 941
Impairment losses	(1 249)	(354)
	14 448	18 587

As at 31 December 2010 and 2009, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Up to 3 months	3 028	3 651
3 to 12 months	7 346	-
1 to 5 years	-	10 076
More than 5 years	4 074	4 860
	14 448	18 587

The analysis of the held-to-maturity investments by quoted and unquoted securities, is presented as follows:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by other entities	14 000	448	14 448	17 299	1 288	18 587
	14 000	448	14 448	17 299	1 288	18 587

The changes occurred in impairment losses of held-to-maturity investments are presented as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Balance at the beginning of the year	354	-
Charge for the year	1 815	940
Charge off	(920)	(177)
Exchange differences and other	-	(409)
Balance at the end of the year	1 249	354

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 38.7 million, as follows:

(in thousands of euro)

	Acquisition cost	Reclassification date		Market value as at 31 December 2008	Amortisation of the fair value reserve until 31.12.2010 ^(a)	
		Book value	Fair value reserve			
			Positive			Negative
Bonds and other fixed income securities	40 373	38 706	3	(1 669)	36 211	1 138

(a) The fair value reserve amortised during the year ended 31 December 2010 amounted to euro 311 thousand (31 December 2009: euro 827 thousand)

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, in accordance with the accounting policy described in Note 2.6. This reclassification was made due to the market conditions following the international financial crisis that characterised the year 2008, which was considered to be one of the rare circumstances justifying the application of the amendment to IAS 39.

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)	
	31.12.2010	31.12.2009
Available-for-sale financial assets		
Impact on fair value reserve	1 749	(47)
Tax effect	(507)	14
	<u>1 242</u>	<u>(33)</u>

During the years 2010 and 2009, no transfers were made to this category of assets.

NOTE 21 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 31 December 2010 and 2009, the fair value of the derivatives for risk management purposes can be analysed as follows:

	31.12.2010			31.12.2009		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives for risk management purposes						
Derivatives for risk management purposes - Assets	-	78	78	-	690	690
Derivatives for risk management purposes - Liabilities	-	(6 602)	(6 602)	-	(7 889)	(7 889)
	-	<u>(6 524)</u>	<u>(6 524)</u>	-	<u>(7 199)</u>	<u>(7 199)</u>
Fair value component of assets and liabilities being hedged						
Financial liabilities						
Due to customers	-	6 383	6 383	-	7 300	7 300
	-	<u>6 383</u>	<u>6 383</u>	-	<u>7 300</u>	<u>7 300</u>

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 2010 and 2009, BEST had no hedging derivatives.

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 Note 2.3 and

that the Bank did not classify as hedging derivatives. Book value of assets and liabilities at fair value through profit and loss can be analysed as follows:

(in thousands of euro)

		31.12.2010						
Derivative	Financial assets/liabilities economically hedges	Derivative			Assets/liabilities associated			
		Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date
	Liabilities							
<i>Interest Rate Swap</i>	Due to customers	1 350	75	(9)	(17)	2	339	322
<i>Index Swap</i>	Due to customers	13 893	(6 599)	882	6 400	(919)	3 813	10 213
		15 243	(6 524)	873	6 383	(917)	4 152	10 535

(in thousands of euro)

		31.12.2009						
Derivative	Financial assets/liabilities economically hedges	Derivative			Assets/liabilities associated			
		Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date
	Liabilities							
<i>Interest Rate Swap</i>	Due to customers	4 150	72	142	(91)	55	2 939	3 030
<i>Index Swap</i>	Due to customers	44 206	(7 271)	3 079	7 391	(2 938)	49 615	42 224
		48 356	(7 199)	3 221	7 300	(2 883)	52 554	45 254

As at 31 December 2010 and 2009, the analysis of fair value hedge transactions by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2010		31.12.2009	
	Notional	Fair value	Notional	Fair value
Up to 3 months	2 800	(81 6)	8 073	(4 29)
3 to 12 months	-	-	24 633	(1 162)
1 to 5 years	12 443	(5 708)	15 650	(5 608)
	15 243	(6 524)	48 356	(7 199)

NOTE 22 – PROPERTY AND EQUIPMENT

As at 31 December 2010 and 2009 this balance is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Property		
Improvements in leasehold property	1 206	867
	1 206	867
Equipments		
Computer equipment	1 218	1 165
Furniture and office equipments	1 288	1 194
Motor vehicles	107	107
Fixtures	497	312
Security equipment	54	20
Other	1	1
	3 165	2 799
Work in progress	20	629
	4 391	4 295
Accumulated depreciation	(2 332)	(1 907)
	2 059	2 388

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 2008	866	2 719	583	4 168
Acquisitions	-	80	47	127
Other	1	-	(1)	-
Balance as at 31 December 2009	867	2 799	629	4 295
Acquisitions	-	75	21	96
Transfers	339	291	(630)	-
Balance as at 31 December 2010	1 206	3 165	20	4 391
Depreciation				
Balance as at 31 December 2008	190	1 335	-	1 525
Depreciation of the year	87	295	-	382
Balance as at 31 December 2009	277	1 630	-	1 907
Depreciation of the year	118	307	-	425
Balance as at 31 December 2010	395	1 937	-	2 332
Net amount as at 31 December 2010	811	1 228	20	2 059
Net amount as at 31 December 2009	590	1 169	629	2 388

NOTE 23 – INTANGIBLE ASSETS

As at 31 December 2010 and 2009 this balance is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Acquired to third parties		
Software	11 097	11 086
Accumulated amortisation	(10 736)	(9 967)
	361	1 119

The movement in this balance was as follows:

	(in thousands of euro)	
	Software	
Acquisition cost		
Balance as at 31 December 2008		10 639
Acquisitions:		
Acquired from third parties		447
Balance as at 31 December 2009		11 086
Acquisitions:		
Acquired from third parties		11
Balance as at 31 December 2010		11 097
Amortisations		
Balance as at 31 December 2008		9 055
Amortisations of the year		911
Other		1
Balance as at 31 December 2009		9 967
Amortisations of the year		769
Other		-
Balance as at 31 December 2010		10 736
Net amount as at 31 December 2010		361
Net amount as at 31 December 2009		1 119

NOTE 24 – OTHER ASSETS

As at 31 December 2010 and 2009, the balance other assets is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Debtors and other deposits	1 022	790
Other assets	14	14
Income	1 189	916
Deferred costs	255	247
	2 480	1 967

NOTE 25 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Domes tic		
Deposits with banks in Portugal	53 899	89 589
Repurchase agreements	2 952	-
In ternational		
Deposits	5 644	4 897
	62 495	94 486

As at 31 December 2010 and 2009, the analysis of deposits from banks by the period to maturity is presented as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Up to 3 months	35 582	40 993
3 to 12 months	23 968	49 065
1 to 5 years	2 945	4 428
	62 495	94 486

NOTE 26 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Repayable on demand	205 954	164 106
Time deposits	1 44 167	149 556
Savings accounts	2 778	1 120
Other funds	1 158	439
	354 057	315 221

As at 31 December 2010 and 2009, the analysis of the amounts due to customers by the period to maturity is as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Repayable on demand	205 954	164 106
With agreed maturity		
Up to 3 months	117 617	120 038
3 to 12 months	29 460	29 278
1 to 5 years	1 026	1 799
	148 103	151 115
	354 057	315 221

This balance includes the amount of euro 4 525 thousand (31 December 2009: euro 52 554 thousand) of deposits recognised in the balance sheet at fair value through profit or loss (see Note 21).

NOTE 27 – PROVISIONS

As at 31 December 2010, the balance of Provisions includes General banking risk provisions in the amount of euro 1 035 thousand (31 December 2009: euro 614 thousand) and other provisions in the amount of euro 155 thousand. The balance of provisions presents the following movements:

(in thousands of euro)

	Restructuring provision	Other provisions	Total
Balance as at 31 December 2008	329	-	329
Charge for the year / (Charge-off)	285	155	440
Balance as at 31 December 2009	<u>614</u>	<u>155</u>	<u>769</u>
Charge for the year / (Charge-off)	422	-	422
Other movements	(1)	-	(1)
Balance as at 31 December 2010	<u>1 035</u>	<u>155</u>	<u>1 190</u>

NOTE 28 – 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.

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. BEST determined its current and deferred income tax balance for the year ended 31 December 2009 and on the basis of a nominal rate of 26.5%, in accordance with the Law No. 107-B/2003 and with the Law No. 2/2007 of 15 January (approved Local Tax Law). The current and deferred tax for the year ended 31 December 2010 was determined based on a tax rate of 26.5% plus an additional tax of 2.5% added following Decree-law nr 12-A of 30 June, in the scope of the additional measures of “Programa de Estabilidade e Crescimento (PEC)”.

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.

As at 31 December 2010, the Bank presents tax losses brought forward in the amount of euro 17 814 thousand (31 December 2009: euro 26 574 thousand), as follows:

(in thousands of euro)

Tax loss period	Amount	Year of use	Value used	Balance	Deadline to deduction
2004	(9 598)	-	-	(9 598)	2010
2005	(6 235)	-	-	(6 235)	2011
2006	(1 155)	-	-	(1 155)	2012
2007	(826)	-	-	(826)	2013
	(17 814)		-	(17 814)	

Given the uncertainties about the utilization of tax losses brought forward and on a prudent basis, the Board of Directors of BEST chosen not to recognise deferred tax asset.

The current income tax is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Current tax	308	179
Total income tax recognised in results	308	179

The reconciliation of the income tax rate can be analysed as follows:

(in thousands of euro)

	31.12.2010		31.12.2009	
	%	Amount	%	Amount
Profit before taxes		6 137		4 755
Statutory tax rate	29.0		26.5	
Income tax calculated based on the statutory tax rate		1 780		1 260
Tax losses used for which no deferred tax assets were recognised	(29.0)	(1 780)	(26.5)	(1 260)
Other	5.0	308	3.8	179
	5.0	308	3.8	179

NOTE 29 – OTHER LIABILITIES

As at 31 December 2010 and 2009, the balance Other liabilities is analysed as follows:

(in thousands of euro)

	31.12.2010	31.12.2009
Creditors		
Public sector	936	626
Sundry creditors		
Suppliers	605	1 549
Creditors arising out from future contracts	268	463
Captive accounts	148	178
Other	152	17
	<u>2 109</u>	<u>2 833</u>
Accrued expenses		
Staff costs	1 182	1 133
Other	55	487
	<u>1 237</u>	<u>1 620</u>
Deferred income	196	330
Other sundry liabilities		
Other transactions pending settlement	453	219
	<u>3 995</u>	<u>5 002</u>

NOTE 30 – SHARE CAPITAL

Ordinary shares

In 2002, the Bank performed a capital increase from euro 32 422 thousand to euro 43 000 thousand through the issuance of 10 578 ordinary shares with a nominal value of euro 1 each, which were subscribed and fully paid. In February 2003, the Bank performed a new capital increase through the issuance of 12 million ordinary shares with a nominal value of euro 1 each.

In 2005, the capital was increased through the issuance of 6 million ordinary shares and in 2006 was increased again through the issuance of 2 million shares, being the share capital of the Bank as at 31 December 2010 of euro 63 000 thousand represented by 63 thousand of shares with a nominal amount of euro 1 each, fully subscribed and realised in cash by the following entities:

	% Share capital	
	31.12.2010	31.12.2009
ES Tech Ventures, SGPS, S.A.	33.97%	33.97%
Banco Espírito Santo, S.A.	32.03%	32.03%
Saxo Bank, A/S	25.00%	25.00%
Espírito Santo Financial Group	9.00%	9.00%
Banco Espírito Santo de Investimento, S.A. (a)	0.00%	0.00%
	100.00%	100.00%

(a) owns 100 shares of Banco BE ST

NOTE 31 – FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS

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 changes in these balances were as follows:

	(in thousands of euro)			
	Fair value Reserve	Other reserves and retained earnings		
		Legal reserve	Other reserves and retained earnings	Total
Balance as at 31 December 2008	(1 965)	189	(39 639)	(39 450)
Changes in fair value	(812)	-	-	-
Transfer to reserves	-	238	2 136	2 374
Balance as at 31 December 2009	(2 777)	427	(37 503)	(37 076)
Changes in fair value	16	-	-	-
Transfer to reserves	-	457	4 119	4 576
Balance as at 31 December 2010	(2 761)	884	(33 384)	(32 500)

The fair value reserve is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Amortised cost of available-for-sale financial assets	21 6 853	280 656
Accumulated impairment losses recognised	(1 67)	(1 67)
Amortised cost of available-for-sale financial assets, net of impairment	<u>21 6 686</u>	<u>280 489</u>
Fair value of available-for-sale financial assets	<u>21 4 452</u>	<u>278 551</u>
Net unrealised gains recognised in the fair value reserve	(2 234)	(1 938)
Fair value reserves related to securities reclassified as held-to-maturity investments (see Note 20)	(527)	(839)
	<u>(2 761)</u>	<u>(2 777)</u>

The movement in the fair value reserve, net of deferred taxes, is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Balance at the beginning of the year	(2 777)	(1 965)
Changes in fair value	248	(279)
Disposals during the year	(232)	(533)
Balance at the end of the year	(2 761)	(2 777)

NOTE 32 – OFF-BALANCE SHEET ITEMS

Besides derivative financial instruments, as at 31 December 2010 and 2009, the off-balance sheet items be analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Contingent liabilities		
Guarantees and stand by letters of credit	573	364
Assets pledged as collateral	876	779
	<u>1 449</u>	<u>1 143</u>
Commitments		
Revocable commitments	1 02 710	100 332
Irrevocable commitments	486	475
	<u>1 03 196</u>	<u>100 807</u>
	<u>1 04 645</u>	<u>101 950</u>

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

As at 31 December 2010, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Bank of Portugal (i) for the use of the money transfer system (Sistema de Pagamento de Grandes Transacções) in the amount of euro 210 thousand (31 December 2009: euro 210 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 397 thousand (31 December 2009: euro 299 thousand);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 269 thousand (31 December 2009: euro 270 thousand);

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with the Bank clients which, in general, are contracted by fixed periods or with other expiring requisites and, normally, apply for the payment of a commission. Substantially, all commitments of credit concession in force require clients to maintain certain requisites which are verified at the time of the respective formalisation.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that the Bank requires these operations to be adequately covered by collateral s 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.

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.

Additionally, the liabilities accounted for off-balance sheet and related to banking services provided are as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Responsibilities related with banking services		
Securities and other items held for safekeeping on behalf of customers	468 957	466 581
Other responsibilities related with banking services	117 823	112 253
	586 780	578 834

NOTE 33 – RELATED PARTIES TRANSACTIONS

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

	31.12.2010				31.12.2009			
	Assets	Liabilities	Income	Expense	Assets	Liabilities	Income	Expense
BES	72 864	37 076	2 968	977	243 688	67 478	8 814	688
BES AÇORES	148 450	-	1 189	-	-	-	-	-
BESI	4 003	-	-	-	4 353	-	80	-
ESAF	-	-	268	-	-	-	-	-
BES VIDA	-	26 417	1 006	-	-	5 625	-	-
ES CONTACT CENTER	-	-	-	895	-	-	-	815
LOCARENT	-	-	-	355	-	-	-	-
BES SEGUROS	-	25	-	-	-	9	4	-
	225 317	63 518	5 431	2 227	248 041	73 112	8 898	1 503

As at 31 December 2010 and 2009, the total amount of assets and liabilities of BEST with ESFG (Group BES holding) and related companies, is as follows:

	31.12.2010				31.12.2009			
	Assets	Liabilities	Income	Expense	Assets	Liabilities	Income	Expense
BANQUE PRIVÉE ESPÍRITO SANTO	9 000	16 541	204	101	10 000	-	-	-
COMPANHIA SEGUROS TRANQUILIDADE	-	54	-	158	-	78	10	-
ESBANKERS (Dubai)	-	156	-	-	-	-	-	-
ES FINANCIAL (P)	58 310	-	945	-	60 000	-	-	-
SAXO BANK	23 766	100	4 309	-	-	-	3 730	-
T - VIDA	-	333	-	-	-	-	-	-
	91 076	17 184	5 458	259	70 000	78	3 740	-

All transactions with related parties are made on an arms length basis, under the fair value principle.

NOTE 34 – 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 2010						
Deposits with banks	49 717	-	-	-	49 717	49 717
Financial assets held for trading	-	-	582	-	582	582
Financial assets at fair value through profit or loss	-	-	825	-	825	825
Available-for-sale financial assets	549	3 744	21 015	-	214 452	214 452
Loans and advances to banks	80 191	-	-	-	80 191	80 191
Loans and advances to customers	96 872	-	-	-	96 872	95 768
Held-to-maturity investments	14 448	-	-	-	14 448	14 180
Derivatives for risk management purposes	-	-	78	-	78	78
Financial assets	241 777	3 744	211 644	-	457 165	455 793
Financial liabilities held for trading	-	-	150	-	150	150
Deposits from banks	62 495	-	-	-	62 495	62 495
Due to customers	349 532	-	4 525	-	354 057	354 057
Derivatives for risk management purposes	-	-	6 602	-	6 602	6 602
Financial liabilities	412 027	-	11 277	-	423 304	423 304
Balance as at 31 December 2009						
Deposits with banks	22 250	-	-	-	22 250	22 250
Financial assets held for trading	-	-	441	-	441	441
Financial assets at fair value through profit or loss	-	-	787	-	787	787
Available-for-sale financial assets	549	44 446	233 556	-	278 551	278 551
Loans and advances to banks	64 420	-	-	-	64 420	64 420
Loans and advances to customers	60 012	-	-	-	60 012	60 337
Held-to-maturity investments	18 587	-	-	-	18 587	17 701
Derivatives for risk management purposes	-	-	690	-	690	690
Financial assets	165 818	44 446	235 474	-	445 738	445 177
Financial liabilities held for trading	-	-	175	-	175	175
Deposits from banks	94 486	-	-	-	94 486	94 486
Due to customers	262 667	-	52 554	-	315 221	315 221
Derivatives for risk management purposes	-	-	7 889	-	7 889	7 889
Financial liabilities	357 153	-	60 618	-	417 771	417 771

BEST 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.

During 2010, there were no transfer between the different sources/ valuation models used by the Bank for the valuation of assets and liabilities.

The main assumptions and inputs used during the years ended 2010 and 2009 in the valuation models are presented as follows:

Interest rate curve

The short term rates presented reflect benchmark interest rates for the money market, being that for the long term the presented values represent the swap interest rate for the respective periods:

	31.12.2010			31.12.2009			(%)
	EUR	USD	GBP	EUR	USD	GBP	
<i>Overnight</i>	0.4500	0.3000	0.5800	0.2500	0.0750	0.3700	
1 month	0.7820	0.2606	0.6800	0.4000	0.4200	0.5800	
3 months	1.0060	0.3028	0.8200	0.5000	0.4700	0.6600	
6 months	1.2270	0.4559	1.2600	0.9300	0.6800	0.9300	
9 months	1.3720	0.6200	1.4150	1.0900	0.9000	1.0300	
1 year	1.3320	0.4590	0.8910	1.3155	0.6480	0.9960	
3 years	1.9450	1.3030	1.9480	2.2700	2.0120	2.6560	
5 years	2.4810	2.1980	2.6180	2.8050	2.9300	3.3900	
7 years	2.8930	2.8390	3.1868	3.2130	3.4680	3.7650	
10 years	3.3050	3.4010	3.5350	3.5980	3.9220	4.0880	
15 years	3.6380	3.8580	3.8780	3.9700	4.3130	4.3670	
20 years	3.6970	4.0030	3.9530	4.0700	4.4270	4.3600	
25 years	3.6660	4.0760	3.9530	4.0210	4.4630	4.2925	
30 years	3.4960	4.1240	3.9230	3.9520	4.4790	4.2170	

Interest rate volatility

The values presented below, refer to the implied volatilities (at the money) used for the valuation of the interest rate options:

(%)

	31.12.2010			31.12.2009		
	EUR	USD	GBP	EUR	USD	GBP
1 year	42.00	104.76	56.90	54.70	95.83	68.30
3 years	42.80	67.49	52.00	40.50	57.99	48.40
5 years	36.20	47.52	39.60	32.00	42.78	36.20
7 years	31.30	37.90	32.00	26.40	36.00	29.50
10 years	26.80	31.35	25.50	21.70	30.52	24.00
15 years	23.19	27.04	20.50	18.29	26.16	19.50

Exchange rate and volatility

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:

Exchange rates			Volatility (%)				
	31.12.2010	31.12.2009	1 month	3 months	6 months	9 months	12 months
EUR/USD	1.3362	1.4406	13.53	14.38	14.55	14.58	14.60
EUR/GBP	0.8608	0.8881	9.45	10.15	10.78	11.02	11.25
EUR/CHF	1.2504	1.4836	9.75	9.20	8.85	11.70	8.58
EUR/NOK	7.8000	8.3000	7.45	8.00	8.25	8.32	8.40
USD/BRL ^{a)}	1.6597	1.7432	9.95	12.25	13.45	14.41	15.35
USD/TRY ^{b)}	1.5487	1.4957	11.45	12.40	13.00	13.25	13.61

^{a)} Calculation based on EUR/USD and EUR/BRL exchange rates

^{b)} Calculation based on 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.

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
	31.12.2010	31.12.2009	% change	1 month	3 months	
DJ Euro Stoxx 50	2 793	2 965	-5.81	18.42	17.32	22.99
PSI 20	7 588	8 464	-10.35	18.08	14.12	-
IBEX 35	9 859	11 940	-17.43	26.28	21.10	-
FTSE 100	5 900	5 413	9.00	15.37	13.98	16.55
DAX	6 914	5 957	16.07	15.60	14.18	18.64
S&P 500	1 258	1 115	12.79	10.84	13.46	15.17
BOVESPA	69 305	68 588	1.05	19.07	18.12	24.54

The methods and assumptions used in estimating the fair values of financial assets and liabilities measured at amortised cost in the balance sheet are analysed as follows:

Cash and deposits at central banks, Deposits with banks and Loans and advances to banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments 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 instalments 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.

NOTE 35 – RISK MANAGEMENT

BEST takes advantages of the synergies inherent to its shareholding structure, while maintaining a lightweight operational structure and subcontracting Group Banco Espírito Santo a set of services and other back office functions where there are economies of scale in the use of shared services.

In this sense, Banco Espírito Santo and / or Group companies are the leading provider of outsourcing services of BEST.

The role of Risk Management works within the Global Risk Department of Banco Espírito Santo and aims to ensure effective implementation of the risk management system through continuous monitoring of its adequacy and effectiveness, seeking to identify, assess, monitor and control all material risks to which the Bank is exposed, both internally and externally. In this context, BEST participates in various relevant risk committees, particularly in the Risk Committee and on the Assets and on the Liabilities Management Committee.

The Bank is exposed to the following risks arising from the use of financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk;
- Operational risk.

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk).

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 the Bank 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.

BEST credit risk exposure is analysed as follows:

	(in thousands of euro)	
	31.12.2010	31.12.2009
Deposits with banks	1 29 908	86 670
Financial assets held for trading	582	441
Financial assets at fair value through profit or loss	825	787
Available-for-sale financial assets	213 900	278 002
Loans and advances to customers	96 872	60 012
Held-to-maturity investments	14 448	18 587
Derivatives for risk management purposes	78	690
Other assets	2 211	1 224
Guarantees granted	573	364
Irrevocable commitments	486	475
	459 883	447 252

The analysis of the risk exposure by sector of activity, as at 31 December 2010 and 2009, can be analysed as follows:

	(in thousands of euro)									
	31.12.2010									
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit 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	49	(1)	-	-	-	-	-	-	-	-
Chemicals and rubber	271	(6)	-	-	-	-	-	-	-	-
Non-metallic minerals	89	(2)	-	-	-	-	-	-	-	-
Metallic products	52	(1)	-	-	-	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-	-	1 496	-	-
Construction	38	(1)	-	-	-	-	-	-	-	-
Wholesale and retail	740	(7)	-	-	-	-	-	-	-	-
Financial activities	-	-	582	825	78	154 243	-	8 335	(1 249)	-
Real estate activities	14 054	(368)	-	-	-	-	-	-	-	-
Services provided to companies	14 135	(153)	-	-	-	476	-	-	-	-
Public services	3 952	(4)	-	-	-	976	-	-	-	-
Non-profit organisations	-	-	-	-	-	58 924	(167)	5 866	-	-
Consumers loans	64 398	(1 396)	-	-	-	-	-	-	-	-
Other transforming industries	-	(2)	-	-	-	-	-	-	-	573
TOTAL	97 778	(1 941)	582	825	78	214 619	(167)	15 697	(1 249)	573

^(a) Includes impairment loans in the amount of euro 906 thousand (see Note 19) and the provision for credit general risks in the amount of euro 1 035 thousand (see Note 27).

(in thousands of euro)

	31.12.2009									
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit 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	
Non-metallic minerals	85	(1)	-	-	-	-	-	-	-	-
Metallic products	66	(1)	-	-	-	-	-	-	-	-
Other transforming industries	31	-	-	-	-	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-	-	1 479	-	-
Construction	39	(1)	-	-	-	-	-	-	-	-
Wholesale and retail	1 107	(4)	-	-	-	1 605	-	-	-	-
Transports and communications	1	(1)	-	-	-	3 848	-	-	-	-
Financial activities	-	-	441	787	690	205 375	-	11 835	(354)	-
Real estate activities	12 233	(183)	-	-	-	-	-	-	-	-
Services provided to companies	9 846	(81)	-	-	-	6 517	-	-	-	-
Public services	-	-	-	-	-	581	-	-	-	-
Non-profit organisations	-	-	-	-	-	60 792	(167)	5 627	-	-
Consumers loans	37 286	(1 024)	-	-	-	-	-	-	-	-
Other transforming industries	-	-	-	-	-	-	-	-	-	364
TOTAL	60 694	(1 296)	441	787	690	278 718	(167)	18 941	(354)	364

^(a) Includes impairment loans in the amount of euro 682 thousand (see Note 19) and the provision for credit general risks in the amount of euro 614 thousand (see Note 27).

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. The Bank's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR stress testing has been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euro)

	31.12.2010				31.12.2009			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	107	227	490	81	257	122	272	68
Interest rate risk	-	-	-	-	-	39	-	22
Shares and commodities	-	-	-	-	-	-	-	-
Diversification effect	-	-	-	-	-	(22)	-	(15)
Total	107	227	490	81	257	139	272	75

BEST has a VaR of euro 107 thousand (31 December 2009: euro 257 thousand) for its trading positions.

Following the recommendations of Basel II (Pillar 2) and Instructions n°19/2005, of the Bank of Portugal BEST calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance and off-balance balances which are not part of the trading portfolio, by reprising intervals.

(in thousands of euro)

	31.12.2010							31.12.2009						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks	129 545	-	127 345	-	-	2 200	-	86 624	-	59 565	23 471	1 388	2 200	-
Loans and advances to customers	96 600	-	44 934	26 165	14 728	9 690	1 083	59 541	-	40 613	16 894	2 034	-	-
Securities	230 190	552	225 696	2 250	825	468	399	296 191	716	282 361	7 214	-	5 900	-
Off balance sheet	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total			397 975	28 415	15 553	12 358	1 482			382 539	47 579	3 422	8 100	-
Deposits from banks	62 282	-	59 337	-	-	2 945	-	94 466	-	47 466	47 000	-	-	-
Due to customers	358 816	-	348 324	9 949	543	-	-	321 544	-	291 784	7 313	21 421	1 026	-
Repo's with clients	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities issued*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet	-	-	720	630	-	(1 350)	-	-	-	720	630	-	(1 350)	-
Total			408 381	10 579	543	1 595	-			339 970	54 943	21 421	(324)	-
GAP (Assets - Liabilities)			(10 406)	17 836	15 010	10 763	1 482			42 569	(7 364)	(17 999)	8 424	-

* The amounts with interest rate are at nominal value

The model used to monitor the sensitivity of BEST banking book to interest rate risk is based on the duration model and considers a scenario of a 100 basis points parallel shift in the interest rate curve for all maturities and non parallel scenarios of changes in the yield curve above 1 year in 50b.p.

(in thousands of euro)

	31.12.2010				31.12.2009			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At 31 December	(649)	649	(189)	189	(136)	136	(128)	128
Average for the year	(647)	647	(151)	151	(540)	540	(122)	122
Maximum for the year	(1 002)	1 002	(189)	189	(1 028)	1 028	(144)	144
Minimum for the year	(239)	239	(95)	95	(136)	136	(84)	84

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 2010 and 2009:

(in thousands of euro)

	31.12.2010			31.12.2009		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Monetary assets	62 815	643	1.02%	125 113	2 051	1.64%
Loans and advances to customers	76 386	2 399	3.14%	47 999	1 961	4.09%
Securities	308 079	5 140	1.67%	337 783	12 756	3.78%
Differential applications	-	-	-	-	-	-
Financial assets	447 280	8 182	1.83%	510 895	16 768	3.28%
Monetary liabilities	75 914	645	0.85%	51 136	728	1.42%
Due to customers	333 784	3 430	1.03%	432 832	9 796	2.26%
Differential resources	37 582	-	-	26 927	-	-
Financial liabilities	447 280	4 075	0.91%	510 895	10 524	2.06%
Net interest income		4 107	0.92%		6 244	1.22%

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2010 and 2009, is analysed as it follows:

	31.12.2010			31.12.2009		
	Spot	Forward	Net exposure	Spot	Forward	Net exposure
USD UNITED STATES DOLLAR	(17 389)	19 016	1 627	3 750	1 180	4 930
GBP GREAT BRITAIN POUNDS	384	-	384	(2 268)	-	(2 268)
DKK DANISH KRONE	312	-	312	313	-	313
JPY JAPANESE YENE	319	-	319	200	-	200
CHF SWISS FRANC	224	-	224	447	-	447
SEK SWEDISH KRONA	273	-	273	238	-	238
NOK NORWEGIAN KRONE	33	-	33	-	-	-
CAD CANADIAN DOLLAR	430	-	430	379	-	379
AUD AUSTRALIAN DOLLAR	439	-	439	438	-	438
	(14 975)	19 016	4 041	3 497	1 180	4 677

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.

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 millions of euro)	
	31.12.2010	31.12.2009
Accumulated <i>Mismatch</i> ⁽¹⁾	92 491	(6 412)
Net Assets <i>Buffer</i> ⁽²⁾	2 477	16 530
Liquidity position	94 968	10 118

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

(2) The Net assets *Buffer* reflects the assets with maturity over one year that can be given as collateral to obtain liquidity, namely 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 (i) to allow the adequate growth of activities through the generation of enough capital to support the increase of assets, (ii) fulfilment of the minimum requirements defined by the supervision authorities in terms of capital adequacy and (iii) to ensure the fulfilment of the 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 fulfill.

The capital elements of the Bank are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

- Basic Own Funds (BOF): This category includes the realized capital, the eligible reserves (excluding the fair value reserves), the retained earnings of the period, non-controlling interests and preference shares and other hybrid equity instruments. The unrealised losses recognised under the fair value reserve and associated with equity securities, book value of goodwill, intangible assets and negative actuarial deviations from employees' benefits up to 31 December 2007 are deducted in full. From 2007, 50% of the book value of investments in banking and insurance associates over 10% also has to be deducted. Since 2009, following the application of the IRBF method for credit risk, it is also adjusted 50% of the expected losses of risk positions less any existing provisions.
- Complementary Own Funds (COF): Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value and since 2009, is also deducted 50% of the expected losses of the risk positions less any existing provisions, following the application of the IRBF method for credit risk.
- Deductions (D): Essentially incorporates the prudential amortization of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF cannot exceed the BOF. Also, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

The capital adequacy of BEST as at 31 December 2010 and 31 December 2009 is presented as follows:

(in thousands of euro)

31.12.2010 ^(a) 31.12.2009 ^(a)

		31.12.2010 ^(a)	31.12.2009 ^(a)
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		62 992	62 991
Eligible reserves and retained earnings		(32 492)	(37 068)
Intangible assets		(361)	(1 119)
Other		(448)	-
Basic Own Funds (TIER I)	(A1)	29 691	24 804
Complementary Own Funds (TIER II)		-	-
Eligible Own Funds	(A2)	29 691	24 804
B - Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		188 287	150 362
Calculated according Notice 8/2007 (Market Risk)		4 075	6 959
Calculated according Notice 9/2007 (Operational Risk)		31 075	23 184
Risk Weighted Assets Total	(B)	223 437	180 505
C - Prudential Ratios			
Tier I	(A1 / B)	13.3%	13.7%
Solvency Ratio	(A2 / B)	13.3%	13.7%

(a) December 2009 and 2010 amounts according to Standard Method.

NOTE 36 – RECENTLY ISSUED PRONOUNCEMENTS

RECENTLY ISSUED PRONOUNCEMENTS ALREADY ADOPTED BY THE BANK

In the preparation of the consolidated financial statements for the year ended 31 December 2010, the Bank adopted the following standards and interpretations that are effective since 1 January 2010:

IFRS 1 (amendment) – First time adoption of IFRS and IAS 27 – Consolidated and separate financial statements

The amendments of IFRS 1 First time adoption of IFRS and IAS 27, Consolidated and separate financial statements are effective for periods beginning on or after 1 July 2009.

These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.

The adoption of these amendments had no impact on the Bank financial statements.

IFRS 5 (amended) – Non-current assets held for sale and discontinued operations

This amendment clarifies the disclosures required by the norm regarding non-current assets (or groups held for disposal) clarified for sale or discontinued operations.

The adoption of this amendment had no significant impact in the Bank financial statements.

IAS 39 (Amendment) – Financial instruments: recognition and measurement – eligible hedged items

The *International Accounting Standards Board* (IASB) issued an amendment to IAS 39 Financial Instruments: recognition and measurement – Eligible hedged items, which is mandatory for periods beginning on or after 1 July 2009.

This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

The adoption of this interpretation by the Bank had no impact on its financial statements.

IFRIC 12 – Service concession arrangements

The International Financial Reporting Interpretations Committee (IFRIC) issued in July 2007 the IFRIC 12 – Service concession arrangements, effective 1 January 2008. Earlier application is permitted. The endorsement of this interpretation by the European Union occurred only in 2009 and therefore it is only applicable to the Bank from 1 January 2010.

IFRIC 12 applies to service concession arrangements in which the public sector (i) controls or regulates the services provided by the operator and (ii) controls any significant residual interest in the infrastructure.

The adoption of this interpretation by the Bank had no impact on its financial statements.

IFRIC 17 – Distributions of non-cash assets to owners

The IFRIC 17 Distributions of non-cash assets to owners is effective on for periods beginning on or after 1 July 2009.

This interpretation clarifies the accounting treatment of distributions of non-cash assets to owners. This interpretation clarifies that an entity should measure the distribution of non-cash assets at the fair value of the assets to be distributed and that the difference between the fair value of the net assets distributed and the respective carrying amount is recognised in the income statement.

The adoption of this interpretation by the Bank had no impact on its financial statements.

IFRIC 18 – Transfers of assets from customers

The IFRIC 18 Transfers of assets from customers is effective for periods beginning on or after 1 July 2009.

This interpretation clarifies the requirements of IFRS for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

The interpretation clarifies:

- the circumstances in which the definition of an asset is met;
- the recognition of the asset and the measurement of its cost on initial recognition;
- the identification of the separately identifiable services (one or more services in exchange for the transferred asset);
- the recognition of revenue; and
- the accounting for transfers of cash from customers.

The adoption of this interpretation by the Bank had no impact on its financial statements.

Annual Improvement Project

In May 2008, IASB published the Annual Improvement Project making certain amendments to existing standards, missing to be adopted by the Bank the following amendment. The amendments with effects to the Bank, in 2010, are as follows:

- Amendment to IFRS 5 Non-current assets held for sale and discontinued operations, effective for periods beginning on or after 1 July 2009. This amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.

The adoption of this amendment by the Bank had no impact on its financial statements.

RECENTLY ISSUED PRONOUNCEMENTS YET TO BE ADOPTED BY THE BANK

The new standards and interpretations that have been issued, but that are not yet effective and that the Bank has not yet applied, can be analysed as follows.

The Bank will apply these standards when they are effective.

IFRS 9 – Financial instruments

The International Accounting Standards Board (IASB) has issued in November, 2009 IFRS 9 - Financial instruments part 1: Classification and measurement, which is mandatory from 1 January 2013, being an earlier adoption permitted. This IFRS has not yet been adopted by the European Union.

This IFRS is included in the IASB global project to replace IAS 39 and addresses the classification and measurement of financial assets, being the main aspects:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the

asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss;

- All equity instruments issued by third parties are to be measured subsequently at fair value through profit or loss. However, the entity can irrevocably elect equity instruments to 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 7 - Financial Instruments: Disclosures - Transfers of Financial Assets

On October 2010 the International Accounting Standards Board (IASB) published *Disclosures—Transfers of Financial Assets (Amendments to IFRS 7)*. The amendment is applicable for annual periods beginning on or after 1 July 2011. Earlier application is permitted. This amendment has not yet been adopted by the European Union.

The amendments required to disclosures about transactions that involve transfer of financial assets, namely securitizations 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 Bank is currently evaluating the impact of the adoption of this amendment.

IAS 24 (revised) – Related party disclosures

On November 2009 the International Accounting Standards Board (IASB) published Related Party Disclosures (IAS 24 revised). The amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted. This amendment has not yet been adopted by the European Union.

The revised standard clarifies and simplifies the definition of related party and the requirement for State related entities to disclose in detail all transactions with the State and other similar entities.

The Bank is currently evaluating the impact of the adoption of this amendment.

IAS 32 (amendment) – Classification of Rights Issues

On 8 October 2008 the International Accounting Standards Board (IASB or the Board) published Classification of Rights Issues (Amendment to IAS 32). The amendment is applicable for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

This amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer and requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount

of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The Bank does not expect any impact in its consolidated financial statements from the adoption of this amendment.

IFRIC 14 (Amended) – Prepayments of a minimum funding requirement

This amendment intends to remove an unintended consequence of IFRIC 14 – “IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

The amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted. An entity shall apply the amendments from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies this Interpretation.

The Bank is currently evaluating the impact of the adoption of this amendment.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

On 26 November 2009 the International Accounting Standards Board (IASB) published IFRIC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments. The interpretation is applicable for annual periods beginning on or after 1 July 2010. Early application is permitted.

The IFRIC noted that there was diversity in practice in how entities measured an equity instruments issued in a debt for equity swap. A ‘debt for equity swap’ transaction normally refers to a transaction in which a debtor and a creditor renegotiate the terms of a financial liability, such that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor.

The interpretation clarifies (i) when an entity’s equity instruments issued to extinguish all or part of a financial liability corresponds to ‘consideration paid’ in accordance with IAS 39 paragraph 41, (ii) how should an entity initially measure the equity instruments issued to extinguish the financial liability and (iii) how should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued

.The Bank is currently evaluating the impact of the adoption of this interpretation.

ANNEX

Adoption of *Financial Stability Forum (FSF)* recommendations and the *Committee of European Banking Supervisors (CEBS)* relative to Information Transparency and Asset Valuation

(Carta-Circular nr. 97/2008/DSB from December 3rd and Carta Circular n°58/2009/DSB from August 5th)

I. BUSINESS MODEL

1. Description of the business model

In the introduction and the chapter "II – Operations in 2010" in the Management Report, there is a description of the business model of the Bank.

2. Strategies and objectives

The strategies and objectives of the Bank are also disclosed in the sections "II – Operations in 2010" and "V - Outlook" in the Management Report. The Bank has not made any issuance of debt nor made any securitization until December 31, 2010.

3., 4. and 5. Activities and contribution to the business

Chapter "II – Operations in 2010" in the Report presents information about the activities and their contribution to the business.

II. RISKS AND RISK MANAGEMENT

6. and 7. Description and nature of risks

In Note 35 information is presented that allows the market to gain insight about the risks incurred by the Bank and management mechanisms for its monitoring and control.

III. IMPACT OF THE FINANCIAL PERIOD OF TURBULENCE IN THE RESULTS

8., 9. and 10. Qualitative and quantitative results

Section I of the 2008 Management Report presented the impacts of the period of financial turbulence. During the year 2009 it is considered not to have occurred facts of financial turbulence with a material impact on business and profits. During fiscal year 2010, following the rise of sovereign risks, there was a substantial widening of risk premiums without materially relevant impacts on activity and results attributable to the exercise.

11. Comparison of impacts between periods

The direct and indirect impacts of the period of financial turbulence in 2008 were developed in section I of its 2008 Management Report.

12. Decomposition of write-downs between realized and unrealized

Income and expenses related to assets and liabilities held for trading and assets and liabilities at fair value through profit and for-sale financial assets are broken down by financial instrument in Notes 7 and 8 to the financial statements.

13. Financial turmoil in the share price of Bank

Bank equities are not listed on any official market, so this section does not apply.

14. Risk of maximum loss

Note 35 discloses relevant information about the losses that may be incurred in situations of market stress.

15. Responsibilities and results issued

Not applicable, the Bank has not issued debt securities during fiscal year 2010.

IV. LEVELS AND TYPES OF EXPOSURES AFFECTED BY TIME OF FINANCIAL TURBULENCE

16. Nominal value and fair value of exposures

Explanatory Notes 17:31 to disclose relevant information about the value of the Bank's exposures.

17. Mitigating credit risk

Not applicable.

18. Information on the Bank's exposures

Notes 16, 17, 31 and 35 of the 2008 Management Report gives you notice about the exposures affected by the crisis period. The information disclosed therein shall be deemed sufficient, considering the detail and quantification presented and the fact that in the year 2010 there was no events of financial turbulence, but keeping the gradual evolution towards normalization that has already been observed during 2009.

19. Movements in exposures between periods

Notes 16, 17, 31 and 35 disclose relevant information about the Bank's exposures in which they compare the exposures to the markets and the results with reference to the year 2009 as 2010. The information disclosed therein shall be deemed sufficient, based on the quantification and detail presented and the fact that there have been no financial events of relevance in 2010.

20. Exposures that have not been consolidated

Not applicable.

21. Exposure to monoline insurers and insured assets quality

The Bank has no exposure to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are disclosed in Note 2 - Principal Accounting Policies.

23. Special Purpose Entities (SPE) and consolidation

The Bank has not made any issuance of debt nor made any securitization until December 31, 2010.

24. and 25. Fair value of financial instruments

Note 2 refers to the conditions for using the fair value option, as well as techniques used to value financial instruments.

VI. OTHER RELEVANT ISSUES IN DISCLOSURE

26. Description of policies and principles of disclosure

The Bank, in the context of its policy of disclosure of accounting and financial nature, aims to satisfy all the requirements of a regulatory nature, they are dictated by accounting standards or by supervisors and market regulation. The Bank seeks to align its financial disclosures by industry best practices with respect, on the one

hand, to the cost in the uptake of relevant information and, secondly, the benefits that it can provide to the different users.

Among the set of information available to its shareholders, customers, employees, supervisors and the general public, we highlight the Management Report and Financial Statements and related Notes. The financial statements are prepared based on the Adjusted Accounting Standards (AAS) which confer a high degree of transparency to the information disclosed as well as comparability.

ANNEX

Remuneration Policy for the Corporate Bodies of BEST – Banco Electrónico de Serviço Total, S.A.

I. Rules regarding the Remuneration Policies for the Corporate Bodies

Law no. 28/2009 of June 19th was approved in 2009 and has enforced a new mandatory content on the remuneration policies of the corporate bodies and audit committee members in companies of the financial sector, also demanding the disclosure of the individual remunerations of the referred bodies.

Afterwards, Banco de Portugal (Central Bank) has approved the Notice no. 1/2010, as well as the Circular Letter no. 2/2010, which complemented the referred Law no. 28/2009 and that specify the items that should be included in the remuneration policy prepared by the credit institutions.

In short, here below are the main aspects of the new rules in what regards remuneration and remuneration policies:

- a) The individualized disclosure of the remunerations of the corporate bodies members;
- b) The presentation to the Annual Meeting of Shareholders of a remuneration policy of the members of the corporate bodies;
- c) The creation of means to allow the alignment of the interests of the corporate bodies members with the long term ones of the company, with basis on the performance evaluation and discouraging the excessive risks assumptions;
- d) The establishment of maximum limits for the fix and variable parts of the remuneration, which must be balanced between each other, being the fix one high enough to allow the implementation of a fully flexible policy about the remuneration's variable component;
- e) The deferment in the variable remuneration payment time;
- f) The payment of a considerable part of the variable remuneration in financial instruments.

The remuneration policy must be consistent with the specialties of Banco Best, in particular in what concerns the remuneration of the Executive Directors, as, for instance, considering that Banco Best is not a public company, it is not justified to provided for remunerations in the form of the attribution of financial instruments. It is also important to bear in mind that the Executive Committee has a small number of members.

II. Main aspects of the remuneration policy of Banco Best Corporate Bodies

The remuneration policy of Banco Best Corporate Bodies is defined by the following essential pillars:

- a) The total variable remuneration should be close to the fixed remuneration component, including the establishment of maximum limits for both;
 - b) The final amount of the variable remuneration depends on the annual assessment made by the responsible body, defined by the General Meeting of Shareholders;
 - c) A significant part of the variable component should be deferred within a period not inferior to 3 years;
- The new remuneration policy should not, altogether, represent a significant increase on the costs that Banco Best have to their Executive Directors and Supervisory Board Members;

III. The new remuneration policy of the Corporate Bodies of Banco Best

1. Remuneration policy approval process

a) Approval

To be approved in the General Meeting as per proposal of the Board of Directors of Banco Best.

b) Mandate of the responsible body

The Board of Directors of Banco Best is elected for a period of three years; the present one ceases in 2012.

c) External Consultants

No external consultants were hired to define the corporate bodies' remuneration policy.

d) Groups of Companies taken as comparative elements

BES corporate bodies' remuneration policy was taken as a comparative element, since it is the major shareholder of Banco Best.

2. Remuneration of the members of the General Meeting Board

The members of the General meeting Board are not remunerated.

3. Supervisory Board Members

The Supervisory Bodies of Banco Best are the Supervisory Body and the Independent Statutory Auditor.

The **Supervisory Body** is elected by the General Meeting of Banco Best for a period of three years and is composed of 3 permanent members and an alternative member, being one of the permanent members

its chairperson. Their remuneration consists in the quarterly attribution of presence vouchers of variable value according to their professional experience, at a maximum of 5 000 per member.

The Permanent Statutory Auditor and the Alternative are proposed by the Supervisory body and are appointed by the General Meeting for periods of three years. The remuneration of the Permanent Statutory Auditor is made independently and as per the auditing services agreement with Grupo Banco Espírito Santo, thus in line with the market practices. The Alternative Statutory Auditor is not remunerated.

4. Non executive members of the Board of Directors

The non executive members of the Board of Directors are not remunerated.

The members that have executive positions in corporate bodies of companies in dominant position and/or group related with Banco Best, or that hold specific positions by indication of the Board of Directors of Banco Best, may be remunerated by the referred companies or by Banco Best according to the relevance of their position.

5. Executive Committee Members

a) Differentiation of remuneration

All the Executive Committee members have different remuneration, according to their professional history, position held and professional experience.

b) Remuneration components

The remuneration consists in a fix part and a variable part.

The remuneration of the Executive Committee is established by the General Meeting every year until the end of March, being based on the performance evaluation of the previous financial year.

c) Limits of remuneration

The fixed part will have its limits established by the responsible body and will represent approximately 66% of the Total Annual Remuneration.

The fixed part is composed of the Executive Committee members' salary and of other aids that are granted to all workers of Banco Best.

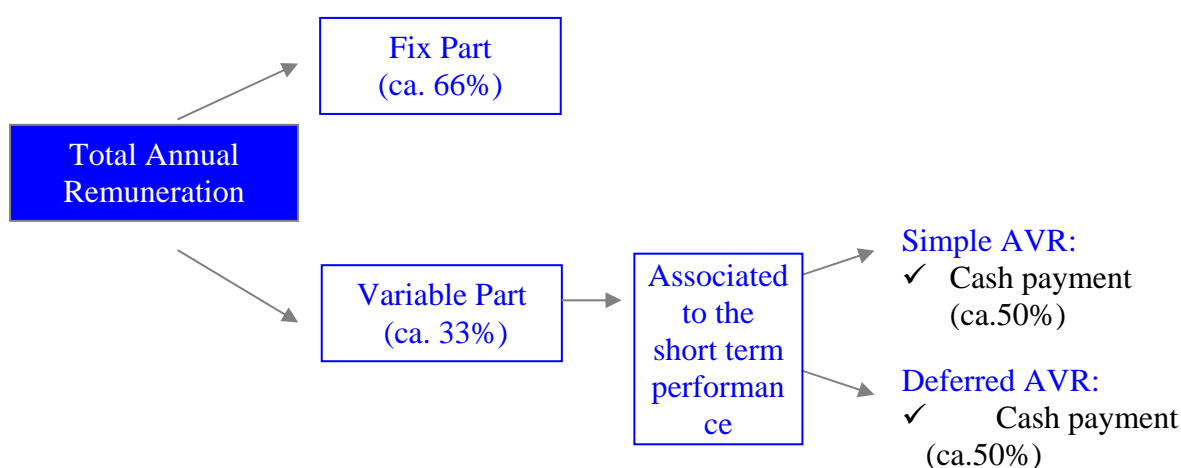
The variable part for 2010 has a limit of 5% of Best net profits.

d) Balance in the remuneration

The fix part will represent approximately 66% of the total remuneration, and the remaining 33% are paid as variable part.

The exact amount of the variable part will fluctuate each year depending on the achievement of the main annual goals, included in the annual Budget, as approved by the Board of Directors.

Criteria for the definition of the variable component and dates of payment



The **Annual Variable Remuneration («AVR»)** concerns the **Short Term Performance** and will represent around 33% of the Annual Total Remuneration.

The **AVR** will be calculated at the beginning of each year by the responsible body according to the achievement of the main annual goals, included in the Annual Budget of the previous year and approved by the Board of Directors: the Net Results of the Financial year, the Cost-to-Income and the Return-on-Equity.

The **AVR** will be proportional to the Budget Degree of Achievement of these three metrics.

The **AVR** is divided between a simple part («**SimpleAVR**»), which is paid in cash after the approval of the results of the relevant financial year, and a deferred part paid within a period of three years maximum (the **Deferred Annual Variable Remuneration («DeferredAVR»)**).

e) Means of Limitation of the Variable Remuneration

The Deferred Annual Variable Remuneration («DAVR») is subject to two general limitations: on one hand its payment is deferred throughout a 3 year period; on the other hand it ceases being due in case BEST suffers a structural degradation. It is the General Meeting of Shareholders duty to determine the existence of a structural degradation that will consist namely in the reduction of the return on equity to values below 5%.

f) Criteria for the performance evaluation

The evaluation of the executive members is based on four indicators:

- **“Cost-to-Income”**, indicator that shows the operational activity of Banco Best and that measures the capacity for generating income in relation to the operational costs;
- **Financial year Net Result**, indicator that shows the contribution to the shareholders, already deducted of non captured dimensions in the Cost-to-Income, namely the risk cost, the taxes and the minority interests;
- **“Return-on-Equity”**, indicator that measures the yield generated in view of the volume invested by the shareholders;

g) Criteria for the shares that are distributed to the executive directors

No shares or options over shares are distributed to the executive directors of Banco Best.

h) Criteria for the eventual signature of agreements regarding the distributed shares

No shares or options over shares are distributed to the executive directors of Banco Best.

i) Main parameters and basis of any system of annual rewards and any other non pecuniary benefits

There is no other way of remuneration besides the fix and variable remunerations as described in this policy.

j) Remuneration paid by means of profits distribution or rewards payment and reasons for the payment

There is no other way of remuneration besides the fix and variable remunerations as described in this policy.

k) Compensations paid or due to ex-executive members of the corporate body referring to their duties cease during the financial year

No compensations were paid or are due to ex-executive members of the Executive Committee referring to the cease of their duties.

l) Contractual limitations foreseen for the compensation to be paid in case of dismissal without justified cause and their relation with the remuneration variable part

There aren't any agreements that fix the amount to be paid to members of the Executive Committee dismissed without justified cause.

m) Main characteristics of the pensions complementary system or early retirement, indicating if they were subject to the General Meeting discussion

Banco Best have no agreements that foresee pension complementary systems or early retirement.

n) Estimation of the value of the relevant non pecuniary benefits considered as remuneration and not foreseen in the previous situations

Relevant non pecuniary benefits are not distributed.

6. Rules applicable to all the corporate bodies members

a) Payments referring to the dismissal or ceasing of duties by the Directors

There aren't any approved payments regarding the directors' dismissal, and any cease of duties by mutual agreement needs to be previously approved by the General Meeting in what regards the involved amounts.

b) Payments made in 2010 to the members of the Corporate Bodies, including amount paid, for any reason, to companies in a group relationship:

Executive Committee

The CEO earned, as a fixed remuneration, Eur 228 167 and a variable remuneration of Eur 75 352, including meal allowance and the performance bonus. Ms. Marília Cabral earned a fixed remuneration of Eur 137 290, and a variable remuneration of Eur 52 041, including meal allowance and the performance bonus. Mr Pedro Neves earned a fixed remuneration of Eur 124 923, and a variable remuneration of Eur 36 694, including meal allowance and the performance bonus.

Supervisory Body:

The fixed remuneration paid to the Chairperson of the Supervisory Body was € 2000 and no variable remuneration was paid. The fixed remuneration paid to the member of the Supervisory Body, Mr. Luís Botelho, was € 1600 and no variable remuneration was paid. The fixed remuneration paid to the member of the Supervisory Body, Mr. Elísio Cardoso, was € 1200 and no variable remuneration was paid.

ANNEX

Observance Statement

(Article n.º 4, no. 1 of Central Bank's Notice no. 1/2010)

Detailed Observed and Non Observed Recommendations, according to Circular no. 2/2010/DSB

REMUNERATION OF THE CORPORATE BODY MEMBERS			
RECOMMENDATION	OBSERVED	NON OBSERVED	REASON FOR NON OBSERVATION
The institutions should adopt a remuneration policy that allows an effective risk control and management, avoiding unnecessary risk exposure, avoiding possible conflict of interests and being in accordance with the institution long term goals, values and interests, specially with the growth expectations and sustainable yield as well as with the clients and investors best interests protection (as per I.4. of the Circular).	X		
The remuneration policy should fit the dimension, nature and complexity of the institution developed or to be developed activity, mainly concerning the risks undertaken or to be undertaken (as per I.5. of the Circular).	X		
As far as the remaining employees' remuneration is concerned, the respective policy should be approved by the management board (as per II.2. of the Circular).	X		
When defining the remuneration policy, the respective participants should be functionally independent and with suitable technical skills, including employees that are in the control departments and, when necessary, skills in human resources. The definition should also include external experts to avoid conflicts of interest and to allow an	X		

independent and fair judgment of the remuneration policy, including its effects on the institution risks, capital and assets management (as per II.3. of the Circular).			
The remuneration policy should be clear and available to all employees. This policy should suffer a periodic revision and should be formalized in independent document(s), duly updated and indicating the changes introduction dates and justifications for them, while the previous versions are also to keep filed (as per II.4. of the Circular).	X		
The evaluation procedures, including the criteria used to determine the variable remuneration, must be communicated to the employees before the evaluation period (as per II.5. of the Circular).	X		
The remuneration committee should make a revision of the remuneration policy and its implementation on an annual basis, particularly in what concerns the remuneration of the executive members of the board and including the respective remuneration based on shares or options, allowing an independent and fair judgment of the remuneration policy, including its effects on the institution risks, capital and assets management (as per III.1. of the Circular).		X	The remuneration of the members of the corporate bodies is defined by the General Meeting of Shareholders.
The remuneration committee members should be independent of the management board members and follow requirements of idoneousness and professional qualification suitable to their job positions, specially having knowledge and/or professional experience in remuneration policies (as per III.2. of the Circular).		X	The remuneration of the members of the corporate bodies is defined by the General Meeting of Shareholders.
In case the remuneration committee resorts to external remuneration services, it should not be a service, individual or company, that has worked for any structure depending on the management		X	The remuneration of the members of the corporate bodies is defined by the General Meeting of Shareholders.

<p>body, for the body itself over the last 3 years, or that has any actual connection with the institution's consulting company (as per III.3. of the Circular).</p>			
<p>The remuneration committee should annually inform the shareholders about the performance and should be present in the general meetings where the remuneration policy is discussed (as per III.4. of the Circular).</p>		<p>X</p>	<p>The remuneration of the members of the corporate bodies is defined by the General Meeting of Shareholders.</p>
<p>The remuneration committee should gather once a year at minimum and should elaborate minutes of every meeting held (as per III.5. of the Circular).</p>		<p>X</p>	<p>The remuneration of the members of the corporate bodies is defined by the General Meeting of Shareholders.</p>
<p>The remuneration of the executive board members should include a variable component, which definition is based on a performance evaluation executed by the responsible bodies of the institution according to measurable predetermined criteria, including non financial ones, and that takes into consideration, besides the individual performance, the real growth of the institution and the wealth generated for the shareholders, the clients and investors interests protection, its long term sustainability and the assumed risks, as well as the compliance with the rules applicable to the institution's activity (as per IV.1. of the Circular).</p>		<p>X</p>	<p>The evaluation of the executive members is based on four indicators:</p> <ul style="list-style-type: none"> • "Cost-to-Income", indicator that shows the operational activity of Banco Best and that measures the capacity for generating income in relation to the operational costs; • Net Result, indicator that shows the contribution to the shareholders, already deducted of non captured dimensions in the Cost-to-Income, namely the risk cost, the taxes and the minority interests; • "Return-on-Equity", indicator that measures the yield generated in view of the volume invested by the shareholders; <p>There aren't non financial criteria used in</p>

			the executive Directors evaluation.
The fixed and variable parts of the total remuneration should be balanced. The fixed part should represent the bigger part of the total remuneration, thus allowing the application of a totally flexible policy on the variable part, including the possibility of non payment of any variable part of the remuneration. The variable part must have a maximum established (as per IV.2. of the Circular).	X		
A considerable portion of the variable part of the remuneration should be paid in financial instruments issued by the institution and which valorization depends on the institution's medium and long term performance. These financial instruments must be in accordance with a retention policy that aligns the incentives by the long term interests and, when not listed on the market, evaluates them by their fair value (as per IV.3. of the Circular).		X	As Banco Best is not listed we do not find necessary to issue financial instruments as a means of variable remuneration.
A significant part of the variable remuneration should be distributed over a period not inferior to 3 years and its payment should be depending on the continuation of the positive performance of the institution during that same period (as per IV.4. of the Circular).	X		
The portion of the variable part subject to distribution should be determined according to the growth of its importance in view of the remuneration fixed part (as per IV.5. of the Circular).	X		
The members of the corporate bodies must not sign contracts with other institutions or third parties that can mitigate the risk related with the variability of the remuneration that shall be fixed by the institution (as per IV.6. of the Circular).	X		
The executive members of the			No shares are

management body should keep their shares obtained through variable remuneration schemes until the end of their commissions, up to the limit of twice the value of the total annual remuneration, except those that need to be transferred as payment of taxes resulting from the benefits of the same (as per IV.7. of the Circular).		X	distributed.
Whenever the variable remuneration comprehends options attribution, the beginning of the fiscal year must have a deferral period not inferior to 3 years (as per IV.8. of the Circular).		X	The remuneration is paid in cash only.
After the fiscal year mentioned above in the previous item, the executive members of the board should keep a certain number of shares until the end of their mandate, in case there is the need to finance any costs related with shares acquisition. The number of shares to be kept must be fixated (as per IV.9. of the Circular).		X	The remuneration is paid in cash only.
The remuneration of the non executive members should not include any part which value depends on the performance or on the value of the institution (as per IV.10. of the Circular).	X		
The necessary law instruments should be established in case the compensation defined for any form of dismissal without justification of a member of the corporate bodies is not paid if this dismissal or leave with mutual consent results from an inadequate performance of the member (as per IV.11. of the Circular).	X		

EMPLOYEES REMUNERATION			
RECOMMENDATION	OBSERVED	NOT OBSERVED	REASONS FOR NON OBSERVATION
In case the remuneration of the employees includes a variable part, this			

<p>should be duly balanced with the fixed part, taking into consideration the performance, the responsibility and the tasks of each employee, as well as the activity of the institution. The fixed part should represent a sufficient high part of the total remuneration that allows the application of a totally flexible policy on the variable part, including the possibility of non payment of any variable part of the remuneration. The variable part must have a maximum established (as per V.1. of the Circular).</p>	<p>X</p>		
<p>A considerable portion of the variable part of the remuneration should be paid in financial instruments issued by the institution and which valorization depends on the institution's medium and long term performance. These financial instruments must be in accordance with a retention policy that aligns the incentives by the long term interests and, when not listed on the market, evaluates them by their fair value (as per V.2. of the Circular).</p>		<p>X</p>	<p>A distribuição é feita em numerário.</p>
<p>The performance evaluation should take in consideration not only the individual performance but also the performance of the structure where the employee is integrated and that of the institution itself. The evaluation should include the relevant non financial criteria such as the respect for rules and procedures applicable to the activity developed, mainly the internal control rules and also those regarding the relations with clients and investors so as to promote the institution sustainability and the long term value generation (as per V.3. of the Circular).</p>	<p>X</p>		
<p>The criteria for the attribution of the variable remuneration according to the performance should be predetermined and measurable having as a reference a</p>		<p>X</p>	<p>The criteria for awarding the variable remuneration are predetermined and</p>

<p>multi annual scenario, between 3 to 5 years, so as to ensure that the evaluation process is based on a long term performance (as per V.4. of the Circular).</p>			<p>measurable. They are not referred to a multi-year framework because of the low weight of the variable remuneration in the total remuneration concerns to the achievement of that year objectives.</p>
<p>The variable remuneration, including the deferred part of that remuneration, should only be paid or be an acquired right if the financial situation of the company allows it, and if the employee performance justifies it. The total of the variable remuneration should be strongly reduced in case the performance level drops or becomes or becomes negative (as per V.5. of the Circular).</p>	<p>X</p>		
<p>A significant part of the variable remuneration should be distributed over a period not inferior to 3 years and its payment should be depending on criteria of future performance, adjusted to the risks associated with the activity from which results their attribution (as per V.6. of the Circular).</p>		<p>X</p>	<p>All employees have objectives and the correspondent evaluation with a variable remuneration adjusted to their specific activity.</p>
<p>The part of the variable remuneration subject to deferral, as per the previous number (V.6.), should be determined according to its importance in relation with the fixed part of the remuneration. The deferred part should increase significantly according to the hierarchy or to the employees responsibilities (as per V.7. of the Circular).</p>		<p>X</p>	<p>Not applicable according to referred on V6.</p>
<p>The employees that perform tasks of control should be remunerated according to the respective goals achievement, independent of the performance of the areas under their control, being this remuneration in accordance with the importance of their tasks/responsibilities (as per V.8. of the Circular).</p>	<p>X</p>		

EVALUATION OF THE REMUNERATION POLICY			
RECOMMENDATION	OBSERVED	NON OBSERVED	REASON FOR NON OBSERVATION
The remuneration policy should be subject to an internal evaluation, at least annually, by the control departments of the institution, articulated between them (as per VI.1. of the Circular).	X		
The above mentioned evaluation should include an analysis of the remuneration policy implementation as per the Circular, focusing on the effect on the risks, capital and cash flow management (as per VI.2. of the Circular).	X		
The control departments should present to the management board and the general meeting of shareholders or, if applicable, to the remuneration committee, a report with the analysis conclusions VI.1. identifying the necessary measures to correct eventual deficiencies (as per VI.3. of the Circular).	X		

FINANCIAL GROUPS			
RECOMMENDATION	OBSERVED	NON OBSERVED	REASON FOR NON OBSERVATION
The parent company of the financial group should be subject to the central bank supervision and should ensure that its branches, even those abroad and off-shores, implement remuneration policies having the present recommendations as reference (as per VII.1. of the Circular).		X	BEST does not have branches
The observation of the present recommendations should be assured to			BEST does not have

<p>the total of the remunerations paid to each employee by the set of the institutions, financial or not, that are part of the same financial group (as per VII.2. of the Circular).</p>		<p>X</p>	<p>branches</p>
<p>The parent company control departments should make, in articulation with each other and on an annual basis, an evaluation of the remuneration practices of the foreign branches and off-shores, as per the present circular, focusing on the effects on the risks, capital and cash flow management (as per VII.3. of the Circular).</p>		<p>X</p>	<p>BEST does not have branches</p>
<p>The control departments should present to the management board of the parent company and to the general meeting of shareholders or, if applicable, to the remuneration committee, a report with the evaluation conclusions in what concerns the referred above, and that identifies the necessary measures to correct eventual deficiencies (as per VII.4. of the Circular).</p>		<p>X</p>	<p>BEST does not have branches</p>

CERTIFICAÇÃO LEGAL DAS CONTAS

Introdução

- 1 Examinámos as demonstrações financeiras do **BEST – Banco Electrónico de Serviço Total, S.A.**, as quais compreendem o Balanço em 31 de Dezembro de 2010 (que evidencia um total de 462.277 milhares de euros e um total de capital próprio de 33.568 milhares de euros, incluindo um resultado líquido de 5.829 milhares de euros), a Demonstração dos resultados, a Demonstração do rendimento integral, a Demonstração das alterações nos capitais próprios e a Demonstração dos fluxos de caixa do exercício findo naquela data, e os correspondentes Anexos.

Responsabilidades

- 2 É da responsabilidade do Conselho de Administração a preparação de demonstrações financeiras, em conformidade com as Normas de Contabilidade Ajustadas, definidas pelo Banco de Portugal, que têm como base a aplicação das Normas Internacionais de Relato Financeiro em vigor e adoptadas pela União Europeia, com excepção das matérias definidas nos n.ºs 2º e 3º do Aviso n.º 1/2005 e no n.º 2º do Aviso n.º 4/2005 do Banco de Portugal ("NCA's"), que apresentem de forma verdadeira e apropriada a posição financeira do Banco, o resultado das suas operações, o rendimento integral as alterações nos seus capitais próprios e os fluxos de caixa, bem como a adopção de políticas e critérios contabilísticos adequados e a manutenção de um sistema de controlo interno apropriado.
- 3 A nossa responsabilidade consiste em expressar uma opinião profissional e independente, baseada no nosso exame daquelas demonstrações financeiras.

Âmbito

- 4 O exame a que procedemos foi efectuado de acordo com as Normas Técnicas e as Directrizes de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas, as quais exigem que o mesmo seja planeado e executado com o objectivo de obter um grau de segurança aceitável sobre se as demonstrações financeiras estão isentas de distorções materialmente relevantes. Para tanto o referido exame incluiu:
 - a verificação, numa base de amostragem, do suporte das quantias e divulgações constantes das demonstrações financeiras e a avaliação das estimativas, baseadas em juízos e critérios definidos pelo Conselho de Administração, utilizadas na sua preparação;
 - a apreciação sobre se são adequadas as políticas contabilísticas adoptadas e a sua divulgação, tendo em conta as circunstâncias;
 - a verificação da aplicabilidade do princípio da continuidade; e,
 - a apreciação sobre se é adequada, em termos globais, a apresentação das demonstrações financeiras.



- 5 O nosso exame abrangeu também a verificação da concordância da informação financeira constante do Relatório de gestão com as demonstrações financeiras.
- 6 Entendemos que o exame efectuado proporciona uma base aceitável para a expressão da nossa opinião.

Opinião

- 7 Em nossa opinião, as referidas demonstrações financeiras apresentam de forma verdadeira e apropriada, em todos os aspectos materialmente relevantes, a posição financeira do **BEST – Banco Electrónico de Serviço Total, S.A.** em 31 de Dezembro de 2010, o resultado das suas operações, o rendimento integral, os fluxos de caixa e as alterações nos capitais próprios no exercício findo naquela data, em conformidade com as NCA's tal como definidas pelo Banco de Portugal.

Relato sobre outros requisitos legais

- 8 É também nossa opinião que a informação constante do relatório de gestão é concordante com as demonstrações financeiras do exercício.

Lisboa, 14 de Março de 2011



KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
representada por
Fernando Gustavo Duarte Antunes (ROC n.º 1233)

BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.
RELATÓRIO E PARECER DO CONSELHO FISCAL
EXERCÍCIO DE 2010

Senhores Accionistas do
Banco Electrónico de Serviço Total, S.A.

Nos termos da legislação em vigor, apresentamos o relatório sobre a actividade fiscalizadora desenvolvida pelo Conselho Fiscal sobre o Relatório de Gestão, as demonstrações financeiras e a proposta de aplicação de resultados, relativamente ao exercício findo em 31 de Dezembro de 2010, apresentados pelo Conselho de Administração do Banco Electrónico de Serviço Total, S.A. (doravante, BEST).

O Conselho Fiscal tem acompanhado, no âmbito das suas atribuições, e nos termos da lei e dos estatutos, a evolução da gestão e da actividade do BEST, nomeadamente:

- i. apreciou a adequação e a eficácia dos sistemas de gestão de riscos, de controlo interno e de auditoria interna;
- ii. participou, nas reuniões do Conselho de Administração, sempre que foi convocado para as mesmas;
- iii. analisou os documentos de informação de gestão que foram apresentados pelo Conselho de Administração;
- iv. acompanhou a verificação dos registos contabilísticos e dos correspondentes documentos de suporte;
- v. apreciou as políticas contabilísticas e os critérios valorimétricos adoptados pelo BEST; e
- vi. teve reuniões, sempre que necessárias, sobre a apreciação das políticas contabilísticas e os critérios valorimétricos adoptados pelo BEST, com o Revisor Oficial de Contas que sempre prestou as informações tidas como relevantes.

Foi ainda analisado o Relatório de Gestão elaborado pelo Conselho de Administração, que no entender deste Conselho cumpre os requisitos legais e estatutários e é elucidativo dos principais aspectos que circunscreveram a actividade do BEST no ano de 2010, sendo de salientar o impacto positivo gerado pela actualização da plataforma online ao nível dos depósitos e dos fundos de investimento.



O Conselho Fiscal regista com apreço o montante atingido pelo resultado líquido do BEST, cujo valor ascende a 5.829 milhares de euros em 2010, apesar da envolvente negativa a nível nacional e internacional.

O Conselho Fiscal apreciou também, nos termos da lei, o Relatório de Auditoria elaborado pelo Revisor Oficial de Contas, tendo igualmente tomado conhecimento da sua Certificação Legal de Contas sobre as referidas demonstrações financeiras, referentes ao exercício de 2010, que não apresenta qualquer reserva e com a qual concorda.

Face ao exposto, é Parecer deste Conselho que sejam aprovados:

- O Relatório de Gestão e os restantes documentos de prestação de contas, do exercício findo em 31 de Dezembro de 2010;
- A proposta de aplicação de resultados líquidos apresentada pelo Conselho de Administração.

Lisboa, 29 de Março de 2011


O CONSELHO FISCAL



José Manuel Macedo Pereira
(Presidente)



Luis Manuel Santos Botelho



Elisio Armando da Cruz Cardoso