BANCO ESPIRITO SANTO

Press Release

BANCO ESPÍRITO SANTO GROUP ACTIVITY AND RESULTS IN 1H10

(Unaudited financial information under IFRS as implemented by the European Union)
(BES; Bloomberg: BES PL; Reuters: BES.LS)
Lisbon, 26 July 2010

- 1H10 net income reached EUR 282.2 million (+14.6% YoY) corresponding to ROE of 9.6% (FY09: 10.0%, or 8.8% if excluding extraordinary results).
- The international area continued to make an important contribution to the results: commercial banking income rose by 32.4%, net income reached EUR 96.1 million, i.e. 34% of the Group's net income (1H09: 34%).
- Customer loans grew by 8.4% YoY (Jun. 09:+4.6%), driven by credit growth in the international area (+16.8%). Corporate loans, the most dynamic component of credit, rose by 11.1%, or EUR 3.9 billion. Customer deposits growth of 3.7% was not sufficient to compensate the decline in certificates of deposit placed in the international market, due to the downgrade of sovereign debt rating followed by the downgrade of the banks' ratings, leading to a 4.3% decrease on total customer funds.
- Operating costs increased by 9.9%, driven by a 33.9% increase of the international area's costs, due to the expansion to emerging countries. Nevertheless, the Cost to Income remained below 50%.
- The provision charge in 1H10 was 65bp (1H09: 1.13%; comparable basis: 0.97%), driving up the balance of provisions to 3.15% of the credit portfolio (Jun. 09: 2.81%).
- The overdue loans ratio (>90 days) was 1.70% (Jun. 09: 1.42%), with a corresponding provision coverage of 184.9% (Jun. 09: 197.9%).
- The refinancing needs for 2010 are covered by the anticipation of debt issued in 2009 and in the current year (EUR 7.8 billion). 98% of the medium and long term issues maturing in 2010 (EUR 5.1 billion) were already reimbursed. Additionally, the Group has a EUR 12 billion portfolio of securities eligible for rediscount (o.w. EUR 7.6 billion with the ECB).
- The solvency ratio is 11.1%, with Tier I standing at 8.4%.
- The main equity exposures of the AFS portfolio show a potential gain of EUR 163 million (Jun. 09: EUR 58 million).

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1. ECONOMIC OVERVIEW

The second half of 2010 was marked by the deterioration of European sovereign risk, which peaked at the beginning of May. The interest spread between the 10-year Greek public debt securities and the German benchmark bunds reached a high of 965 bps on May 7th, while on the same day the same spread for Portugal and Spain was 349 bps and 164 bps, respectively. Investor confidence was further undermined by the downgrade by one of the main rating agencies of the sovereign ratings of Greece (to BB+, which is below investment grade), Portugal (to A-) and Spain (to AA). The creation by the EU and the IMF of a financial stability fund and the support provided by both these institutions to the Greek economy contributed to restore some confidence and to trim down sovereign spreads, which even so remained abnormally high at the end of the second quarter (785 bps in Greece, 312 bps in Portugal and close to 200 bps in Spain).

In addition to investor fears, there emerged a cloud of uncertainty about the potential impact of the sovereign risk crisis on the European financial sector. The end of the first semester was thus marked by the drying up of liquidity in the money and credit markets, which affected in particular the economies in the periphery of the Euro Zone and led the ECB to increase the provision of liquidity to these economies. Between March and June the 3-month EURIBOR rose from 0.634% to 0.767%, while the euro dropped by 9.4% against the dollar, to EUR/USD 1.226.

In this climate of high aversion to risk and increased demand for safe haven assets, the yield on 10-year German government bonds fell by 52 bps, to 2.58% and the main stock market indices recorded overall negative movements in the quarter. From March to June, the DAX and CAC40 indices lost 14.8% and 12.8% respectively, while the IBEX and the PSI-20 fell by 14.8% and 12.8%. In the US, the Dow Jones, Nasdaq and S&P500 retreated by 10.0%, 12.0% and 11.9%, while in Brazil the Bovespa index dropped by 13.4%. Despite the deterioration in confidence levels, global economic activity saw a recovering trend during the first half of the year, which was led by the main emerging economies but also supported by the acceleration of GDP growth in the US and Euro Zone in the second quarter. Portugal also benefited in the period from a more dynamic performance of exports, which grew by 18.4% year-on-year until May. The Portuguese GDP is thus reckoned to have registered year-on-year growth rates of close to 1.8% in both the first and the second quarters.

2. RESULTS

Despite low confidence levels in the financial markets and sovereign risk deterioration in the Southern European countries during the first half of the year, BES Group's net income for 1H10 reached EUR 282.2 million (+14.6% YoY), corresponding to a return on equity (ROE) of 9.6%.

INCOME STATEMENT

EUR million

	1H09	1H10	Change	
			absolute	relative
Net Interest Income	650,2	546,3	- 103,9	-16,0%
+ Fees and Commissions	346,2	389,6	43,4	12,5%
= Commercial Banking Income	**996,4**	**935,9**	**- 60,5**	**-6,1%**
+ Capital Markets and Other Results	162,1	205,7	43,6	26,9%
= Banking Income	**1 158,5**	**1 141,6**	**- 16,9**	**-1,5%**
- Operating Costs	512,3	563,3	51,0	9,9%
= Operating Income	**646,2**	**578,3**	**- 67,9**	**-10,5%**
- Provisions	325,1	238,8	- 86,3	-26,5%
Credit	274,1	174,5	- 99,6	-36,3%
Securities	22,6	32,3	9,7	43,1%
Other	28,4	32,0	3,6	12,6%
= Income before Taxes and Minorities	**321,1**	**339,5**	**18,4**	**5,7%**
- Income Tax	53,3	21,5	- 31,8	-59,6%
= Income before Minorities	**267,8**	**318,0**	**50,2**	**18,7%**
- Minority Interests	21,6	35,8	14,2	65,5%
= Net Income	**246,2**	**282,2**	**36,0**	**14,6%**

In line with 1Q10, activity continued to reflect the Group's capacity to create value, based on a focused and consistent strategy focused on customer satisfaction, risk control and financial strength.

Main highlights of 1H10 net income:

- resilience of banking income in a particularly challenging context, with only a slight drop of 1.5%;
- increase of the international area's contribution to commercial banking income from 24% in 1H09 to 34% in 1H10 was key for results sustainability;
- reinforcement of provisions, with a charge of 41% of operating income/cash flow generated, had a positive impact on credit provision reserve.

International activity

The deployment of the international strategy was pursued at a steady pace: in April 2010 the Group concluded the acquisition of 40% of the share capital and management control of Aman Bank, a private bank headquartered in Tripoli, Libya.

The international units' net income totalled EUR 96.1 million, a 13.3% YoY increase (or 30.8% on a comparable basis, i.e. adjusting BES Angola's 1H09 earnings for the stake currently held by the Group). This performance was driven by commercial banking income growth of 32.4% (while domestic commercial banking income decreased by 18.2%), underpinned by positive contribution of net interest income (+26.4%), growth of fees and commissions (+49.8%) and lower provision charges.

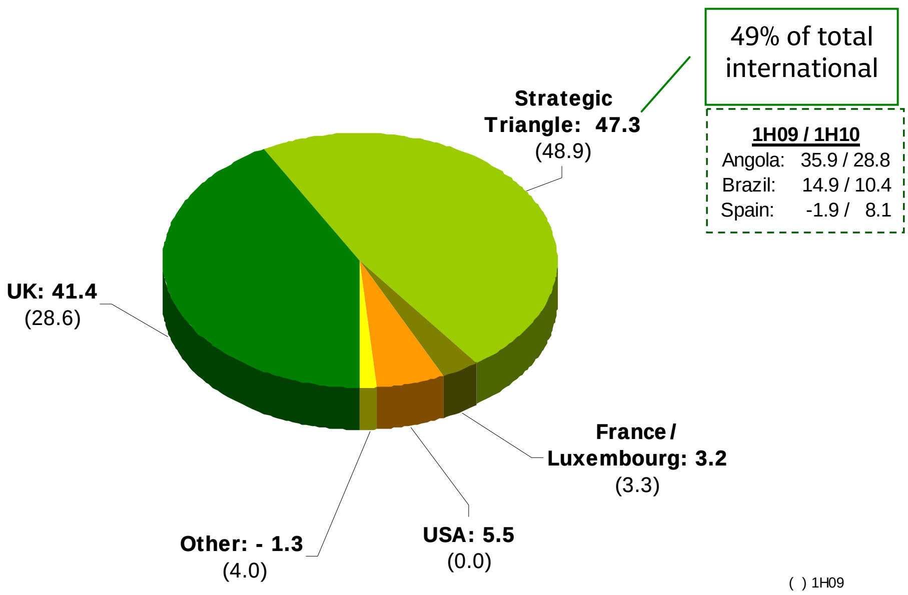
The Group had profits in nearly all the countries where it operates, with the main contributors being the United Kingdom, Angola and Brazil. The recovery in Spain reflects the international business growth and the provision charge reduction.

INCOME STATEMENT
Domestic and International Breakdown

EUR million

	Domestic			International		
	1H09	1H10	Change	1H09	1H10	Change
Net Interest Income	472,4	321,6	-31,9%	177,8	224,7	26,4%
+ Fees and Commissions	284,5	297,1	4,4%	61,7	92,5	49,8%
= **Commercial Banking Income**	**756,9**	**618,7**	**-18,2%**	**239,5**	**317,2**	**32,4%**
+ Capital Markets and Other Results	109,4	188,1	71,8%	52,7	17,6	-66,5%
= **Banking Income**	**866,3**	**806,8**	**-6,9%**	**292,2**	**334,8**	**14,6%**
- Operating Costs	415,8	434,1	4,4%	96,5	129,2	33,9%
= **Operating Income**	**450,5**	**372,7**	**-17,3%**	**195,7**	**205,6**	**5,0%**
- Provisions	250,2	194,2	-22,4%	74,9	44,6	-40,4%
Credit	201,7	131,7	-34,7%	72,4	42,8	-40,8%
Securities	22,7	32,6	43,3%	- 0,1	- 0,3	... .
Other	25,8	29,9	15,9%	2,6	2,1	-18,6%
= **Income before Taxes and Minorities**	**200,3**	**178,5**	**-10,9%**	**120,8**	**161,0**	**33,2%**
- Income Tax	36,4	- 4,4	... .	16,9	25,9	53,5%
= **Income before Minorities**	**163,9**	**182,9**	**11,6%**	**103,9**	**135,1**	**30,0%**
- Minority Interests	2,5	- 3,2	... .	19,1	39,0	103,9%
= **Net Income**	**161,4**	**186,1**	**15,3%**	**84,8**	**96,1**	**13,3%**

INTERNATIONAL BUSINESS
34% of Consolidated Net Income
(EUR million)



2.1. Net Interest Income

The loss of confidence in the financial sector and speculative movements on the Euro induced by solvency concerns on the Southern European countries caused the drying up of the interbank market and the substantial increase in financing costs in the international capital markets, conditioning the activity In the 1H2010.

In the 1H09, on the other hand, the positive effect of the asset vs. liability re-pricing mismatch generated by the sharp fall in market rates, coupled with an adjustment of credit spreads, drove an improvement of net interest income.

Given the above mentioned context, the 1H10 net interest income was EUR 546.3 million, a 16%YoY decrease (1Q10: -19.5%). The EUR 45.1 million volume increase was not sufficient to offset the 45 bp NIM reduction (- EUR 149 million).

NET INTEREST INCOME AND NET INTEREST MARGIN

EUR million

	1H09			1H10		
	Average Balance	Avg Rate (%)	NII	Average Balance	Avg Rate (%)	NII
Interest Earning Assets	66 228	4,89	1 607	72 570	3,91	1 406
Customer Loans	48 146	5,13	1 225	51 519	3,73	953
Other Assets	18 082	4,26	382	21 052	4,34	453
Other	531	-	-	200	-	-
Interest Earning Assets & Other	**66 759**	**4,86**	**1 607**	**72 771**	**3,90**	**1 406**
Interest Bearing Liabilities	66 759	2,90	957	72 771	2,38	860
Deposits	24 981	2,33	289	25 622	1,53	194
Other Liabilities	41 778	3,22	668	47 149	4,30	666
Other	-	-	-	-	-	-
Interest Bearing Liabilities and Other	**66 759**	**2,90**	**957**	**72 771**	**2,38**	**860**
NII / NIM		**1,96**	**650**		**1,51**	**546**
Euribor 3 M - year average		***1,66***			***0,67***	

The 45 bp reduction of the net interest margin (from 1.96% to 1.51%) is explained by the average rate on interest earning assets (down by 96 bp, from 4.86% to 3.90%) declining sharper than the average rate on interest bearing liabilities (down by 52 bp, from 2.90% to 2.38%).

However, the 2Q10 net interest income (EUR 293 million) increased by EUR 39 million QoQ (1Q10: EUR 254 million), which confirms the recovery from 4Q09 lows of EUR 250 million. The increase of the yields in the securities portfolio and a more intensive use of the ECB liquidity facilities both contributed to the 2Q10 NII improvement.

NET INTEREST INCOME AND NET INTEREST MARGIN

EUR million

	1Q10			2Q10		
	Average Balance	Avg Rate (%)	NII	Average Balance	Avg Rate (%)	NII
Interest Earning Assets	72 974	3,72	669	72 703	4,07	738
Interest Bearing Liabilities	72 974	2,31	415	72 703	2,46	445
NII / NIM		**1,41**	**254**		**1,61**	**293**

2.2. Fees and Commissions

Fees and commissions totalled EUR 389.6 million, a 12.5% YoY increase, in line with the 2009 FY increase of 12.8%.

FEES AND COMMISSIONS

EUR million

	1H09	1H10	Change	
			absolute	relative
Collections	14,8	12,3	-2,5	-17,0%
Securities	21,7	27,7	6,0	27,6%
Guarantees	34,1	41,7	7,6	22,3%
Account management	43,2	40,8	-2,4	-5,4%
Commissions on loans and other (1)	80,0	96,3	16,3	20,5%
Documentary credit	28,5	42,5	14,0	48,9%
Asset management (2)	46,3	50,0	3,7	8,0%
Cards	16,5	18,7	2,2	13,3%
Bancassurance	32,0	30,0	-2,0	-6,2%
Other services	29,1	29,6	0,5	1,4%
Total	**346,2**	**389,6**	**43,4**	**12,5%**

(1) Includes commissions on loans, project finance, export financing and factoring

(2) Includes mutual funds and portfolio management

This performance was underpinned by the diversification of revenue sources, service innovation and improved quality of the services provided. Cross-selling efforts, namely of *bancassurance* products, have been taking second place to on balance sheet products.

Main drivers of fees and commissions:

- commissions on documentary credits increased by 48.9%, reflecting the Group's continued support to the internationalisation of the Portuguese companies;
- commissions on guarantees increased by 22.3%, as a result of important transactions with large companies, namely in guarantees of commercial paper issued by clients;
- commissions on loans rose by 20.5%, directly related to the investment banking services;
- commissions on securities (also related to commercial paper subscription) grew by 27.6%.

2.3. Capital Markets and Other Results

Capital markets and other results totalled EUR 205.7 million, compared to EUR 162.1 million in 1H09.

BREAKDOWN OF CAPITAL MARKETS AND OTHER RESULTS

EUR million

	1H09	1H10	Change
Capital Markets Results	**172,0**	**194,9**	**22,9**
Interest rate, Credit and FX	**94,6**	**48,1**	**-46,5**
Interest rate	197,2	17,4	-179,8
Credit	-81,3	-14,0	67,3
FX and Other	-21,3	44,7	66,0
Equity	**77,4**	**146,8**	**69,4**
Trading	15,4	77,9	62,5
Dividends	62,0	68,9	6,9
Other Results	**-9,9**	**10,8**	**20,7**
Total	**162,1**	**205,7**	**43,6**

Lower liquidity in the financial markets and high uncertainty levels marked the current year, and the 2Q10 in particular, reflecting investor concerns with the public accounts in the Euro Zone countries. This has led to a significant widening of credit spreads for public debt and financial institutions in Southern Europe. This credit crisis caused the devaluation of the Euro against several currencies such as the USD and the BRL and increased the equity markets volatility.

Despite this unfavourable context, capital markets results profits were EUR 109.8 million in 1Q10 and EUR 95.9 million in 2Q10. Except for the loss of EUR 14 million in credit, all capital markets business lines reported profits. The equity trading was the top performer, with a EUR 77.9 million profit.

2.4. Operating Costs

The 9.9% YoY increase in operating costs continues to be related to the international activity expansion, where costs increased by 33.9%, contrasting with a modest increase of 4.4% in costs of the domestic activity.

OPERATING COSTS

EUR million

	1H09	1H10	change absolute	change relative
Staff Costs	276,9	298,9	22,0	8,0%
Admin Costs	191,9	213,9	22,0	11,4%
Depreciation	43,5	50,5	7,0	16,0%
Total	**512,3**	**563,3**	**51,0**	**9,9%**
Domestic	415,8	434,1	18,3	4,4%
International	96,5	129,2	32,7	33,9%

Staff costs increased by 8.0%, as 155 new employees were hired in the international area and the Aman Bank was included in the consolidation scope. Domestic costs increased by 1.3%, having resulted from the regular salary increases and promotions, but offset by the lower amortisation of actuarial differences.

STAFF COSTS

EUR million

	1H09	1H10	Change absolute	Change relative
Remunerations and Social Charges	233,4	258,1	24,7	10,6%
Post Employment Benefits	43,5	40,8	-2,7	-6,2%
Total	**276,9**	**298,9**	**22,0**	**8,0%**
Domestic	221,4	224,4	2,9	1,3%
International	55,4	74,5	19,1	34,5%

The general administrative costs also continued to be influenced by the growth of international area, which implied a 35.9% increase in expenditures with goods and services abroad. Domestic admin costs rose by 6.3%, largely due to support services to the development of international activity.

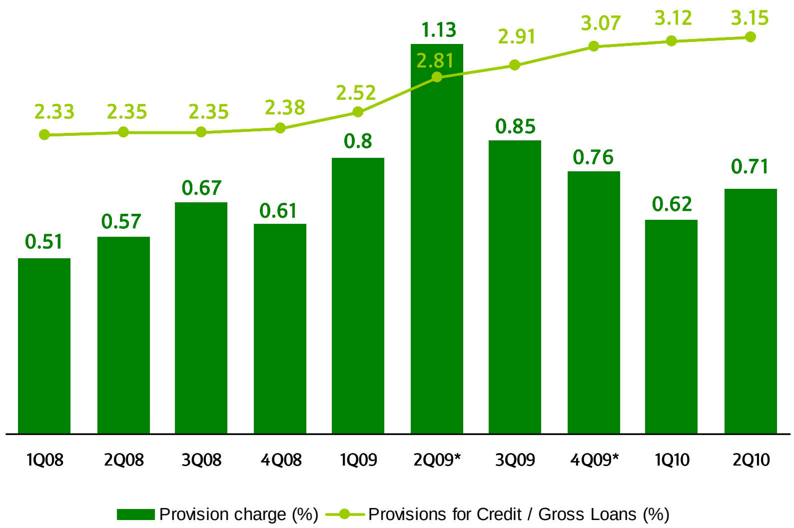
The IT Investment is one of the key instruments for the internationalisation operations deployment, while simultaneously contributing to efficiency and productivity increase of the BES Group. This investment inevitably leads to an increase in costs and in amortisation and depreciation.

2.5. Provisions

In light of the uncertainty about the economic recovery, the Group has reinforced provisions in EUR 238.8 million in 1H10, corresponding to 41% of the net operating income/cash flow generated.

The 1H10 credit provisioning charge was EUR 174.5 million, which is lower than in 1H09 partially due to the additional charge of EUR 40 million made a year ago in view of the deterioration of the economic situation. The 1H10 charge of 0.65% of the loan portfolio results from a higher charge in 2Q10 (0.71%) than in 1Q10 (0.62%), leading once again to an increase in the Provisions for Credit / Gross Loans ratio to 3.15%.

EVOLUTION OF "PROVISION CHARGE" AND "PROVISIONS FOR CREDIT / GROSS LOANS"



* Excludes extraordinary provisions

Provisions for securities totalled EUR 32.3 million, driven by the deterioration of the financial situation of certain debt issuers.

Other provision charges amounted to EUR 32.0 million, reflecting different contingencies inherent to the normal activity of the Group. More than half of this amount is intended to cover impaired assets, namely real estate received during the loan recovery process. The devaluation of the euro also influenced the increase in these charges.

2.6. Profitability

The 1H10 annualised net income corresponds to a return on average equity (ROE) of 9.6%, compared to 8.8% in 2009 FY (excluding extraordinary results), and is particularly relevant in light of the impact from the share capital increase carried out in 2009, with full year effect in 2010.

Return on assets (ROA) was 0.68%, which is an improvement compared to 2009 FY.

PROFITABILITY

%

	1H09 [1]	2009 FY		1H10 [1]
		Stated	Excluding extraordinary items	
Return on Equity	10,1	10,0	8,8	9,6
Return on Assets	0,64	0,66	0,59	0,68

[1] Based on the annualized results of the 1st half

The closing price of BES shares on June 30th, 2010 was EUR 3.25. Market capitalisation was EUR 3,792 million, which is the highest amongst domestic financial institutions listed on the NYSE Euronext Lisbon.

In line with the general downward trend of the PSI20 index and the share price declines of the Portuguese banks, the BES share price is lower than the 2009 YE price of EUR 4.57. Nevertheless, most analysts maintain a “Buy” recommendation on BES, while the average price target is above the 30 June 2010 closing price.

3. ACTIVITY

3.1. General overview

Total assets reached close to EUR 108 billion at the end of 1H10, a 2.6% YoY increase.

The loss of confidence in the international capital markets has lead to a reduction of the short term debt securities placed with institutional clients (CD - certificates of deposit and CP - commercial paper).

The deposit growth of 3.7% was not sufficient to offset the reduction in CD and CP, leading to a 5.5% decrease in on-balance sheet customer funds. This reduction, combined with the increase in customer loans, caused the transformation ratio to rise to 137%.

MAIN BUSINESS INDICATORS

EUR million

	30 June		Change
	2009	2010	
Total Assets (1)	**105 009**	**107 789**	**2,6%**
Net Assets	**81 428**	**84 874**	**4,2%**
Customer Loans (including securitised)	**52 228**	**56 597**	**8,4%**
Loans to Individuals	17 286	17 774	2,8%
- Mortgage	14 571	14 980	2,8%
- Other Loans to Individuals	2 715	2 794	2,9%
Corporate Lending	34 942	38 823	11,1%
Total Customer Funds (A+B)	**58 378**	**55 847**	**-4,3%**
On-Balance Sheet Customer Funds (A)	40 052	37 841	-5,5%
- Deposits	32 962	31 916	-3,2%
Deposits	25 156	26 082	3,7%
Certificates of Deposits	7 806	5 834	-25,3%
- Debt Securities placed with Clients (2)	7 090	5 925	-16,4%
Off-Balance Sheet Customer Funds (B)	18 326	18 006	-1,7%
Transformation Ratio (%) (3)	*118*	*137*	*19 p.p.*

(1) Net Assets + Asset Management + Off-Balance sheet funds + Secuiritised credit

(2) Includes funds associated with securitisations

(3) Net Customer Credit / On BS Customer Funds

Despite the high selectivity imposed on credit granting, the loan portfolio grew by 8.4% YoY. Corporate loans, by far the most important component of credit, increased by 11.1%, backed by BES Group's support provided to the Portuguese companies, especially to the firms that export or have a potential to expand abroad. Credit in the international area (+16.8%) was largely financed by funds obtained outside Europe. The transformation ratio of the international area is 89%.

Mortgage credit and other loans to individuals recorded subdued growth, as demand declined.

International Activity

As for the international activity, customer loans grew by 16.8%, while total customer funds declined by 8.4%.

DOMESTIC AND INTERNATIONAL ACTIVITY BREAKDOWN

euro million

	Domestic			International		
	2Q09	2Q10	Change	2Q09	2Q10	Change
Total Assets (1)	76 684	77 593	1.2%	28 325	30 196	6.6%
Loans to Customers (Including securitised)	42 232	44 924	6.4%	9 996	11 673	16.8%
Total Customer Funds	41 486	40 375	-2.7%	16 892	15 472	-8.4%
Transformation ratio (%)(2)	*143*	*161*	*18 p.p.*	*71*	*89*	*18 p.p.*

(1) Net Assets + Asset Management + Off-Balance sheet funds + Secuiritised credit

(2) Net Customer Loans / On-Balance Sheet Customer Funds

3.2. Main business areas (Operating Segments)

BES Group overview

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

The historic links with Africa and South America, notably with Angola and Brazil, the internationalisation of national companies, the growing interdependence of economies and the large communities of Portuguese nationals established across various continents have provided the basis for the international expansion of BES Group. BES has set in place an international structure designed to provide services to these communities, with positive impact on activity and results.

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

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

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

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

3.2.1. Retail Banking

This segment includes activity with individuals and small businesses, most notably financing of mortgages and consumption, financing of small businesses, deposits, pension plan production and other insurance products for private individuals, commissions for account management, cards and other means of payment, investment funds, purchase and sale of securities and custodian services.

RETAIL BANKING

EUR million

	1H09	1H10	Chg %
Gross Customer Loans	17 885	18 069	1.0
On-Balance Sheet Customer Funds	8 643	9 032	4.5
Commercial Banking Income	301.1	289.3	-3.9
Capital Mkts & Other Results	11.8	14.2	20.6
Banking Income	312.9	303.5	-3.0
Operating Costs	204.6	215.9	5.5
Provisions	18.1	19.7	8.7
Income Before Tax	90.1	68.0	-24.6
Cost to Income (%)	65.4	71.1	5.7 pp

This business area is supported by a network that reached 725 branches in Portugal at the end of the second quarter, including 38 on-site branches resulting from partnerships with insurance agents under the *Assurfinance* programme.

The 1H10 banking income of this business area fell by 3.0% YoY, resulting from the drop of the Euribor to historically low levels and high competition for new deposits.

The Retail area continued to increase its commercial productivity, producing a 7% YoY increase in sales. A total of 60,000 new clients were acquired, as a result of good coordination between the branch network and the main client acquisition channels, especially the cross-segment, the *Assurfinance* and other client acquisition programmes developed with external promoters. Including the international units, BES Group acquired 65,000 new clients during the 1H10.

The retail segment is supported by the following main growth drivers:

- *Strong focus on attracting customer funds*: total customer funds grew by 9.2% YoY, underpinned by a broad offer of savings solutions, including a wide range of off-balance sheet products. During the 2Q10 there was a progressive increase in demand for on-balance sheet funds, which grew by 4.9% in the quarter. One of the top priorities of the Retail business area is to increase customer funds. In order support this task, the Bank has launched several initiatives, including a media campaign featuring Cristiano Ronaldo to attract long term deposits. Several other campaigns were broadcast through the remote channels, especially the Internet Banking.

- *Recovering credit growth, while being highly selective*: the credit portfolio increased by 0.7% since the beginning of the year, largely underpinned by the high level of mortgage production, which was particularly strong in the first quarter. The affluent clients, a lower risk sub-segment, were responsible for 47% of mortgage credit production.
- *Sustained increase in cross-selling*, supported by a continuous flow of innovative product and service launches. These included the "BES Family Advantage" campaign, which includes supermarket discount vouchers, reductions in mortgage credit spreads and discounts on insurance policies to families pooling their accounts with BES (through salary domiciliations or debit of regular expenses). The Bank also launched an innovative personal accident insurance called "BES day-to-day".

The *Assurfinance* programme maintained a decisive contribution to the commercial performance of Retail, being responsible for the acquisition of ca. 9,900 new clients.

The use of Direct Channels continued to increase: the internet banking service for individual clients – BESnet – reached 1,057,000 subscribers in June 2010, which corresponds to a 6.0% YoY increase. The number of frequent users rose by 5.4%, with the number of logins totalling 14.1 million. The commercial capabilities of the Direct Channels continued to be reinforced, in close connection to the servicing function, featuring client interaction functions ("click-to-call" and "click-to-chat") with specific and exclusive products for the Internet and telephone channels. The number of products sold through these channels reached 85,000, with online sales of savings products amounting to more than EUR 808 million.

At the beginning of the year BES launched a new website, which has enhanced the Bank's financial offer visibility. The new website features an intelligent search device (Google Search Appliance) to facilitate data searches as well as customised menus for each segment user profile and for each product category for easier content navigation. The number of visitors to the website reached more than 30 million during the first half of the year.

BEST – Banco Electrónico de Serviço Total also launched a new website at the beginning of January. Based on the Smart Banking concept, the new website stands amongst the most innovative financial sites worldwide. At the end of 1H10, this concept was further enhanced through the launch of a term deposit with interest credited upfront instead of at maturity, as usual. The online securities trading offer was significantly improved through the update of the trading platform, which features an innovative Quick Trade tool, ETFs online trading via Mornigstar as well as reinforced mobile banking platform facilities. Despite the historically low levels of interest rates, customer deposits increased by 4% during the 1H10. Customer loans have increased by 28%, underpinned by increases in collateralised credit and margin accounts. Banco BEST's offers ca. 2000 mutual funds. The number of subscriptions has increased, especially in the equity-linked funds.

In the international wholesale business line, the volume of assets under custody increased by 27%, which, together with the increase in other client assets under custody, drove up total assets under custody to EUR 1.6 billion at the end of 1H10. Net income for the period totalled EUR 3.3 million.

Banco Espírito Santo dos Açores pursued its strategy aimed at increasing its market share and attracting new clients, having signed a number of protocols with companies and institutions. Leveraging on the synergies within the BES Group, BES Açores launched a set of original initiatives: (i) the "Citizen's Card" (BES Açores was the first bank to implement this project in the Azores); (ii) "Saturday with the Family Open Day" – the headquarters' branch, the Angra do Heroísmo, Horta and Madalena branches stayed open on a Saturday to inform customers of the benefits associated to the "BES Family Advantage" campaign; (iii) the "*Interjovem* Card", a youth card launched under a partnership with the Azores Regional Government. Customer funds increased by 17.0% YoY.

Customer loans grew by 7.8%, with mortgage credit, although not as strong as in previous years, still rising by 8.6%.

Net assets reached EUR 533.4 million at the end of 1H10 (+ 4.8% YoY). Although the banking income grew by 3.2%, the significant increase in credit provisions (+221%) caused a 56.2% reduction of the net profit, totalled EUR 0.8 million.

3.2.2 Corporate and institutional Clients

This business area includes activities with large and medium-sized companies, as well as business with institutional and municipal clients. Among the relevant products, we would highlight short-, medium- and long-term loans, leasing, factoring, deposits, guarantees, custody services, documentary credits and payment services.

BES Group holds a significant position in the Corporate and Institutional Customers segment, as a result of its traditional role in supporting the development of the national business community, where it targets companies with a good risk profile and innovative characteristics and companies with an international focus (thus also supporting the role of exports in the recovery of the Portuguese economic situation).

CORPORATE AND INSTITUTIONAL CLIENTS

EUR million

	1H09	1H10	Chg %
Gross Customer Loans	19 514	21 078	8.0
On-Balance Sheet Customer Funds	8 271	8 756	5.9
Commercial Banking Income	243.5	238.8	-1.9
Capital Mkts & Other Results	7.4	8.3	13.0
Banking Income	250.9	247.1	-1.5
Operating Costs	29.6	31.5	6.6
Provisions	116.5	56.7	-51.3
Income Before Tax	104.9	158.9	51.5
Cost to Income (%)	11.8	12.7	1.0 pp

In 1H10 this business area generated pre-tax profits of EUR 158.9 million, a 51.5% YoY increase, as a result of a 51.3% YoY drop in provisioning, enabled by BES Group's constant reinforcement of the credit risk management methodologies. Along these lines, at the beginning of 2010 BES redesigned the operational model and procedures among the different areas involved: sales areas, distressed companies monitoring units and recovery teams.

The alignment of credit granting policies with customer funds acquisition resulted in the increase of on-balance sheet customer funds by 5.9% YoY. Customer loans increased by 8.0% YoY, which reflects the Group's continuous support to business development of the Portuguese firms.

This commercial dynamics, combined with a careful credit line management (including the spreads contracted and commercial discounts on fees and commissions), allowed to buffer the negative impact of low interest rates on banking income.

BES maintained its strong focus on the policies that support the Portuguese firms. The Bank has the leading position in credit granted to the small and medium-sized companies (SMEs) under the "PME Investe" credit lines programme, with a 21% share of total loan applications analysed by the mutual guarantee entities. The Bank has approved more than EUR 1.9 billion in loans to the Portuguese SMEs since the creation of the programme.

In its effort to support the domestic business activity, BES organised a several thematic workshops addressed to companies with the 'SME Leader' status. The first workshop had more than 1,000 entrepreneur participants. Four other workshops will be held until the end of 2010, tackling issues such as Leadership, Innovation and Quality, Marketing and Sales and Internationalisation.

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

At Iberian level, client acquisition and business development are supported by close cooperation between domestic and Spanish commercial networks: from a potential universe of 2,040 Iberian companies with good risk profile, 1,040 (ca. 51%) are BES Group clients.

Within current economic situation, the "BES Express Bill" solution proved to be an important source of liquidity to ease companies' cash management constraints. By enabling payment management, compliance with payment terms and the possibility of cashing in the receivables, this service is proving increasingly successful: more than 2,000 companies have already subscribed to the "BES Express Bill", with more than EUR 750 million in facilities approved.

Commission diversification policies have contributed to increase the trade finance related commissions by 44% YoY, sales of *Bancassurance* products by 32% YoY and commissions on investment banking products placed with medium sized and large corporates by 34% YoY.

The internet banking service for corporate clients - BESnetwork – continued to grow, with the number of users having reached 86,000 (+12.9% YoY) and the number of logins totalling 5.8 million.

3.2.3. Private Banking

This area is dedicated to the business with private high net worth clients, covering all products associated with these clients, notably deposits, discretionary management, custodian services, securities transactions and insurance products.

PRIVATE BANKING

EUR million

	1H09	1H10	Chg %
Gross Customer Loans	913	1 031	12.9
On-Balance Sheet Customer Funds	1 345	962	-28.5
Commercial Banking Income	16.8	19.5	16.2
Capital Mkts & Other Results	2.6	2.8	6.0
Banking Income	19.4	22.3	14.8
Operating Costs	11.2	10.8	-3.3
Provisions	1.6	1.2	-26.6
Income Before Tax	6.7	10.3	53.7
Cost to Income (%)	57.4	48.3	-9.1 pp

The changes implemented in 2009 in the commercial approach model for this segment were consolidated during 1H10, resulting in lower costs (-3.3% YoY). The changes included the identification of customer sub-segments, the preparation of distinctive value propositions for each sub-segment and the geographic redistribution of the private banking commercial units.

At the end of 1H10, total assets under management and custody reached EUR 7.5 billion (+4.6% YoY), backed by activity growth combined with strong diversification efforts. Thus, banking income grew by 14.8% YoY. These results were also achieved due to initiatives that were put in place, aimed to increase the clients' product ownership rates and expand the client base. For example, commissions on products sold to clients grew by 19.1% YoY.

The Private Banking area's pre-tax profit grew by 53.7% YoY, backed by a strong increase in banking income, strict cost containment and the reinforcement of risk management practices.

3.2.4. International Commercial Banking

This segment includes the international units, namely Banco Espírito Santo Angola, the branches of BES in Spain, London, New York and the Cape Verde Islands and more recently also the Aman Bank.

INTERNATIONAL COMMERCIAL BANKING

EUR million

	1H09	1H10	Chg %
Gross Customer Loans	10 637	11 229	5.6
On-Balance Sheet Customer Funds	13 302	10 941	-17.7
Commercial Banking Income	199.5	229.0	14.8
Capital Mkts & Other Results	27.8	14.9	-46.2
Banking Income	227.3	244.0	7.3
Operating Costs	75.5	89.5	18.5
Provisions	66.0	35.0	-47.0
Income Before Tax	85.8	119.5	39.3
Cost to Income (%)	33.2	36.7	3.5 pp

The segment achieved very strong results during the 1H10: commercial banking income increased by 14.8%, while the pre-tax profit rose by 39.3% YoY, to EUR 119.5 million.

Customer funds dropped by 17.7%, reflecting the reduction in certificates of deposit placed in the international market following the downgrade of sovereign debt ratings and consequently of the banking system's rating.

Banco Espírito Santo Angola (BESA) has been operating in the Angolan market for nearly ten years. The Bank continues to steadily assert its position in Angola as one of the institutions with the top profitability and efficiency indicators in the local market, while maintaining the growth dynamics.

During the first half of the year BESA (i) completed the transfer of its IT systems from Lisbon to Luanda; (ii) launched the direct channels, namely the BESAnet internet banking service enabling transactions; and (iii) expanded the range of products and services offered to its clients by launching the credit cards business line. The "BESA Collection" credit card was launched in June; the card offers exclusive benefits and has an innovative design.

During the first half of 2010, BESA launched a new institutional campaign based on the concept of "Wealth" associated to financial development as well as social, cultural and environmental support. This campaign involved initiatives in Angola and other countries, with good media coverage.

Since its foundation, BESA has been distinguished with prizes and awards by prestigious international institutions. In 1H10, BESA received several awards: (i) official bank of the "UNESCO Planet Earth", a distinction valid for 10 years during which BESA will be one of the main partners of UNESCO to promote the messages on sustainability; (ii) "Best Trade Finance in Angola 2010" awarded by the

Global Finance magazine; and (iii) “Best Bank Award 2010 – Angola” awarded by the Global Finance magazine for the third consecutive year.

BES Angola has two firms dedicated to asset management: (i) a fund management firm that manages a closed-end real estate investment fund, with a second fund pending the authorisation of the Angolan authorities; and (ii) a fund management firm that manages an open-end defined contribution pension plan called “BESA Opções Reforma” (as of 1st of February 2010).

Furthermore, as part of its product diversification strategy, BESA stands ready to launch the leasing product line, while awaiting the authorisation from the Central Bank of Angola.

BES Angola’s net assets totalled EUR 5.5 billion by 1H10 end, a 42% YoY increase. Customer funds increased by 37% YoY to EUR 2,083 million and customer loans rose by 61% YoY to EUR 2,443 million. Commercial banking income grew by 44% YoY to EUR 98.7 million, underpinned by a 68% increase in net interest income. Net income reached EUR 76.8 million (+20% YoY). Despite a 23% increase in operating costs, driven by activity growth, the Bank maintains high efficiency levels, with a Cost to Income of 27.4%.

BES Spain Branch maintained a positive performance during the 1H10, despite the difficult economic situation in Spain. Main highlights of the period included: (i) significant increase in transactions, especially the international ones, which grew 139% YoY, while maintaining the customer funds; (ii) sales efforts produced an 8% YoY increase in client acquisition; (iii) reinforcement of the prudent credit risk management, with higher provision charges for bad loans. Despite the uncertainties about the Spanish economic situation and consequent impact on risk, it was possible to maintain the provisioning cost at ca. 102 bp (annualised basis).
Spreads increased significantly, partially neutralising the absence of gains from declining interest rates, as happened in 2009. However, under the current unfavourable market conditions, the banking income is under pressure, mainly as a result of strong competition for customer funds, especially for deposits.
The Bank continued to reinforce its sales force in the areas of Affluent and Corporate Banking, while investing in the network of agents dedicated to attracting high net worth clients. A set of new products were launched to attract new businesses and maintain the current ones. The Branch posted a net profit of EUR 1.9 million in 1H10.

BES London Branch concentrates its activity in wholesale banking in the European market. As a specialised credit unit, the Branch is very selective and maintains a conservative risk management policy. Under the current adverse climate in the financial markets, the volume of funds raised has tended to decline, especially following the downgrade of the sovereign debt rating in April. Nevertheless, net profit increased by 45% YoY, in great part due to lower provision charge.

During the 1H10 **Espirito Santo Bank (USA)** continued to implement the revised strategic plan, by reducing exposure to mortgage credit and promoting international trade transactions. The bank also focused on commission generating asset management products, in close coordination with the broker dealer. However, the US real estate market problems impacted the Bank's performance, causing a significant increase in credit provisions. Customer loans declined by 6.2% (in USD) versus 2009 YE, reflecting a reorientation towards lower risk areas. Customer deposits reached USD 479 million, of which 30% correspond to sight deposits, while assets under management totalled USD 1,105 million.

BES New York Branch concentrates its activity in wholesale banking, mainly in the US and Brazil. Severe restrictions on market liquidity had a negative impact on the placement of the certificates of deposit and commercial paper programmes during the period. Adverse market conditions required increased prudence in business development and focus on risk monitoring and management. Despite this scenario, the Branch increased commercial banking income by 59% YoY.

Aman Bank (Libya) 1H10 activity was conditioned mainly by (i) on the 15th of April 2010, the General Meeting formally approved the BES Group's acquisition of a 40% stake in Aman Bank (Libya); (ii) Immediately after the entrance of new shareholders, the Aman Bank's share capital was increased from 30 to 100 million Libyan dinars.

BES Group took management control of Aman Bank, nominating the majority of the members of the Board of Directors, the Chief Executive Officer and main senior management.

Founded in July 2003 and headquartered in Tripoli, Aman Bank is one of the most prestigious banks within the Libyan financial system. This acquisition is aimed at fostering access to markets in Northern Africa and in Libya in particular.

Aman Bank has a network of 23 branches, concentrated in Tripoli and along the coast. The bank's main business areas are trade finance, international transfers and payments, deposit raising and transactional banking (credit cards, ATMs and POS).

During 1H10 the bank implemented the mobile banking concept, where a fleet of mobile banking vehicles are used as branches to reach the country's remote areas or to reinforce presence where demand exceeds the capacity of the traditional branches.

At **Banque Espírito Santo et de la Vénétie (France)**, structured finance operations reduced their contribution to net income, although this was more than offset by good performance of its traditional business lines. The increase in credit spreads and growth in commission income buffered the negative impacts of low interest rates and of high refinancing costs.

Banking income grew by 18.1% YoY, million, while operating costs increased by 10.3%. The cost to income was 50.1%, down from 53.9% in 1H09. The gross operating income totalled EUR 7.8 million, representing a YoY increase of 27.8%.

Banco Espírito Santo do Oriente (Macao) increased customer loans by 4.6% YoY. Benefiting from a very favourable economic climate in the region, Macao's 1Q10 GDP grew by more than 30% YoY. BESOR continued to be very selective in asset selection and very rigorous in loan granting. Attracting deposits from customers in the Asia-Pacific region is one of the strategic objectives of the bank, while priority is given to a dynamic funding policy. As a result, customer funds rose by 148% YoY.

BES Cape Verde Branch focuses on corporate banking activity, on public-private joint infrastructure investments (ports, roads, electricity and water) as well as on the tourism sector. The branch mainly targets the Portuguese companies with business links to the Cape Verde Islands. In 1H10 the Branch posted a 203% YoY increase in customer deposits, while customer loans slightly declined.

3.2.5. Investment Banking

Investment banking includes advisory services in project finance, mergers and acquisitions, restructuring and consolidation of liabilities, preparation and public or private placement of shares, bonds and other fixed-income and equity instruments, stock broking and other investment banking services. In addition, the bank offers traditional banking services such as loan granting and deposit taking.

INVESTMENT BANKING

EUR million

	1H09	1H10	Chg %
Gross Customer Loans	1 832	2 387	30.3
On-Balance Sheet Customer Funds	1 575	1 438	-8.7
Commercial Banking Income	87.8	113.2	28.9
Capital Mkts & Other Results	17.7	14.7	-17.0
Banking Income	105.5	127.9	21.2
Operating Costs	49.1	63.2	28.8
Provisions	22.5	21.6	-3.9
Income Before Tax	33.9	43.0	26.8
Cost to Income (%)	46.5	49.5	2.9 pp

Despite an environment of uncertainty and instability in the financial markets, the investment banking business maintained the positive trend of 1Q10 and concluded important transactions in its various business areas. Total banking income increased by 21.2% YoY, to EUR 127.9 million, with commercial banking income performing even better, rising by 28.9%, to EUR 113.2 million. The international activity represented 60% of total banking income. Pre-tax income totalled EUR 43.0 million in 1H10, 26.8% higher YoY.

Mergers and Acquisitions – the investment bank provided advisory services (i) in Portugal, to the Eat Out Group (Agrolimen Group) on the sale of Loja das Sopas; (ii) in Spain, to the Llorente Group on the sale of 50% of its gas transport and distribution companies in Castilla y León - TRG and DRG -, to Endesa Gás; and (iii) in Brazil, to the conclusion of the process of capitalisation, through the private placement of shares, of ERB – Energias Renováveis do Brasil through the Investment Fund of the Guaranteed Service Term Fund (Fundo de Garantia por Tempo de Serviço FI-FGTS).

Project Finance - the main deals where the bank participated were the following: (i) Ascendi - Estradas do Pinhal Interior – as Financial Advisor and Mandated Lead Arranger in the structuring of the EUR 1.2 billion financing of the Pinhal Interior road concession (Portugal); (ii) ESCAL UGS / Castor – Mandated Lead Arranger of a EUR 1,624 million financing of an offshore natural gas storage facility (Spain); (iii) Abengoa Cogeneracion Tabasco - Mandated Lead Arranger of a USD 460.1 million financing of a cogeneration plant promoted by Pemex (Mexico); (iv) EURUS S.A.P.I. DE C.V. – Mandated Lead Arranger of a USD 375 million financing of the construction of a 250 MW wind farm promoted by Acciona and Cemex (Mexico); (v) COMGÁS – Mandated Lead Arranger of guarantees in the amount of EUR 50 million provided to the EIB by COMGÁS, Brazil's largest natural gas distribution company, controlled by BP and SHELL; (vi) CME – Financial Advisor in the tender promoted by ANEEL for the construction, operation and maintenance of transmission lines in the State of Pará (Brazil), representing an investment of BRL 65 million; (vii) Perryville Gas Storage LLC – Mandated Lead Arranger in the USD 135 million financing of the construction of a natural gas storage infrastructure in the northeast of the State of Louisiana (US).

Acquisition Finance & Other – BES Investimento acted, in Spain, (i) as Mandated Lead Arranger in the EUR 465 million financing of Morgan Stanley Infrastructure's acquisition of gas distribution assets in the Madrid region, from Gás Natural (the deal was concluded on April 30th, after receiving the favourable opinion of the competition authority); and (ii) as Mandated Lead Arranger of a EUR 1,833 million Forward Start Facility for Abengoa; and in Brazil, as Mandated Lead Arranger of the USD 210 million financing of Sunoco Chemical's acquisition by Braskem.

Equity Capital Markets – BES Investimento acted (i) in Portugal, as Joint Bookrunner of the EUR 500 million issue by BES Finance Ltd of Exchangeable Bonds linked to the performance of the EDP shares, the largest transaction of this kind in Europe in the second quarter of 2010; (ii) and in Brazil, as Contracted Coordinator of the BRL 9.2 billion follow-on offering of Banco do Brasil.

Debt Capital Markets – (i) in Portugal, BES Investimento organised and led five new commercial paper programmes totalling EUR 109 million; and (ii) in Brazil, the bank acted as Joint Lead Manager and Joint Bookrunner of a USD 200 million bond issue by Banco Fibra, Co-Manager of Banco Panamericano's USD 500 million offering of subordinated bonds and as Sole Lead Arranger of promissory note offerings in the local market by Empresa Jornalística Económico (BRL 132 million) and CPM Braxis (BRL 80 million).

Brokerage – BES Investimento ranked in second place on the Madrid Stock Exchange, with a market share of 9.4% (7.6% in 2009) and maintained the leading position in Portugal, with a market share of 11.6% (15.9% em 2009). In Brazil, the revenues registered a strong YoY increase of 347%, as the full brokerage service business model was reinforced through the recruitment of teams for two new desks: derivatives and quantitative trading.

Private Equity – in Portugal: completion of the first solar investment (1.3 MW), through Globalwatt and closure of the financing of the São Macário wind farm, through Windway – both companies are participated by the ESIF fund. In Brazil, a capital increase of 2bCapital was concluded, with Banco Bradesco becoming a shareholder of this management firm; the preparation for the launch of the first fund targeting the Brazilian market was pursued and should take place in 2H10.

In the second quarter of 2010 BES Investimento received the following awards:

- *"Best Investment Bank in Portugal"* in 2010, by World Finance magazine, for the third consecutive year;
- World leader in financial advisory services to PFI/PPP projects, in the Dealogic league tables for the first half of 2010;
- World leader as MLA in the transport sector, in the Infrastructure Journal league tables for the first half of 2010.

At the beginning of July, BES Investimento was awarded the prize for ***"Best Investment Bank in Portugal"*** in 2010 by the Euromoney magazine.

3.2.6. Asset Management

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

ASSET MANAGEMENT

EUR million

	1H09	1H10	Chg %
Assets under Management	19 993	19 673	-1.6
Banking Income	24.4	28.6	17.2
Operating Costs	11.3	12.2	8.1
Provisions	0.0	0.0	....
Income Before Tax	13.2	16.5	25.4
Cost to Income (%)	46.2	42.6	-3.6 pp

At the end of the first quarter of 2010, assets under management (including asset management and other off balance sheet funds) totalled EUR 19.7 billion, reflecting a YoY reduction of 1.6%. Pre-tax profits rose by 25.4%, to EUR 16.5 million, supported by banking income growth of 17.2%.

Real estate funds recorded strong growth in 1H10: the *Fundo de Investimento Imobiliário Aberto Gespatrimónio Rendimento* grew by 11% and the *Fundo de Investimento Imobiliário Aberto ES Logística* more than doubled assets under management. ESAF – Espírito Santo Fundos de Investimento Mobiliário was authorised to launch a new fund - *Fundo Espírito Santo Rendimento III*, a special open-end investment fund. On the international front, there was an increase in activity in Brazil.

3.2.7. Markets and Strategic Investments

This segment is concerned with the global financial management activity of the Group, namely raising funds and providing loans in the financial markets, as well as investment and risk management of credit, interest rate, FX and equity instruments, whether of a strategic nature or as part of current trading activity. It also includes activity with non-resident institutional investors, as well as any activities arising from strategic decisions impacting the entire Group.

MARKETS AND STRATEGIC INVESTMENTS

EUR million

	1H09	1H10	Chg %
Banking Income	218.2	168.2	-22.9
Operating Costs	23.9	23.4	-2.2
Provisions	100.6	104.6	4.1
Income Before Tax	93.7	40.2	-57.1

Despite the adverse market environment in 1H10, results were positive, though lower than in 1H09. Banking income drop of 22.2% together with a 4.1% increase in the provisioning charge resulted in a 57.1% fall in the pre-tax profit of this area.

4. FINANCIAL STRENGTH AND OTHER INDICATORS

4.1. Asset Quality

The Group's overdue loan ratios, in both the domestic and the international activity, reflect the impact of the adverse macroeconomic environment in recent years. Asset quality indicators do not show sighs of improvement yet, as the weak signs of an economic recovery are not sufficient to reverse this trend.

ASSET QUALITY

	June 09	Dec. 09	June 10	Change Dec. 09 / June 10	
				absolute	relative
(euro million)					
Gross loans	48 640	50 531	53 355	2 824	5.6%
Overdue Loans	860.0	893.5	1011.4	117.9	13.2%
Overdue Loans +90d	689.6	810.6	909.3	98.7	12.2%
Overdue and Doubtful Loans (BoP) [(a)]	1 015.8	1 148.0	1 282.3	134.3	11.7%
Provisions for Credit	1 364.6	1 552.3	1 681.5	129.2	8.3%
Indicators (%)					
Overdue Loans / Gross Loans	1.77	1.77	1.90	0.13 p.p.	
Overdue Loans +90d / Gross Loans	1.42	1.60	1.70	0.10 p.p.	
Overdue and Doubtful Loans / Gross Loans[(a)]	2.09	2.27	2.40	0.13 p.p.	
Coverage of Overdue Loans	158.7	173.7	166.3	-7.4 p.p.	
Coverage of Overdue Loans + 90d	197.9	191.5	184.9	-6.6 p.p.	
Coverage of Overdue and Doubtful Loans	134.3	135.2	131.1	-4.1 p.p.	
Provisions for Credit / Gross Loans	2.81	3.07	3.15	0.08 p.p.	
Provision Charge	1.13	1.07	0.65	-0.42 p.p.	
Provision Charge net of Recoveries	1.09	1.03	0.62	-0.41 p.p.	

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

Key points to note regarding asset quality in 1H10:

(i) Total balance of credit provisions over total loans was 3.15%, in line with the upward trend of the previous periods (Jun. 09: 2.81%; Dec. 09: 3.07%; Mar. 10: 3.12%);

(ii) Overdue loans over 90 days represent 1.70% of total customer loans, with 184.9% coverage by provisions;

(iii) The provisioning charge totalled 0.65% of the loan portfolio (0.86% in 2009, excluding the extraordinary charges).

The breakdown of the total overdue loans per type of loan was the following:

ASSET QUALITY BREAKDOWN

	June 09	Dec. 09	June 10	change Dec. 09 / June 10 (p.p.)
Overdue Loans	1.77%	1.77%	1.90%	0.13
Individuals	1.31%	1.31%	1.36%	0.05
- Mortgage	0.74%	0.75%	0.82%	0.07
- Other Purposes	3.60%	3.55%	3.64%	0.09
Corporate	1.95%	1.95%	2.10%	0.15

According to the latest statistics published by the Bank of Portugal (May 2010), the Group's overdue loan ratios compare favourably with those of the Portuguese banking sector: 3.7% for corporate loans, 1.6% for mortgage loans and 7.2% for other loans to individuals.

4.2. Liquidity, Solvency and Financial Strength

4.2.1. Liquidity

The confidence crisis that had been looming in the markets since the beginning of the year due to the deterioration of peripheral European countries' sovereign risk was further intensified during the 2Q10, especially after the announcement of the credit ratings downgrades of Greece, Portugal and Spain.

The long-term debt markets were hit all across Europe, while liquidity also squeezed drastically in the short-term markets, affecting all types of instruments.

On April 27th Standard & Poor's downgraded the long term and short term ratings of the Portuguese Republic to A- and A-2, respectively (from A+/A-1). As a consequence, the ratings of the Portuguese banks were also cut, with BES's ratings being downgraded to the same level as the Portuguese Republic's – long term to A-, from A, and short term to A-2, from A-1.

The Group has consistently shown a comfortable liquidity position, maintaining short term liquidity surpluses through the regular issuance of medium and long term debt in the capital markets.

The market's recognition of this financial discipline has allowed the Group to issue medium and long term debt totalling EUR 7 billion in 2009, which exceeded by EUR 3.8 billion the reimbursements of that year. Medium and long term debt issued already in 2010 totals EUR 4 billion, compared with EUR 5.1 billion maturing this year, of which EUR 5 billion have already been paid up to July.

Main debt issues in 2010 were:

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

There was an additional pressure in the short term markets during the 2Q10, which affected the financial situation of mainly the Southern European countries. Liquidity shortages in the market were thus addressed by resorting to rediscount with the ECB. In this context, BES moved from a net lender of EUR 904 million with the ECB at the end of 1Q10 to a net borrower of EUR 6.0 billion at the end of 2Q10.

During the second quarter, the Group reinforced the portfolio of assets eligible for rediscounting by EUR 1.8 billion to EUR 12.2 billion (cash equivalent), of which EUR 7.6 billion (cash equivalent) are eligible for rediscount with the ECB. In addition, taking advantage of the IRB certification of its risk assessment models and through the structuring of new securitisation operations, the Bank will reinforce the portfolio of assets eligible for rediscount with the ECB by a further EUR 5 billion (equivalent liquidity) until the end of the year.

From the total EUR 4.7 billion debt maturing in 2011, the following issues will fall due in the first quarter: (a) covered bonds in the amount of EUR 1.25 billion, which, in the absence of a functioning market, will be used to reinforce the pool of collaterals with the ECB; (b) exchangeable bonds linked to the ordinary shares of Banco Bradesco in the amount of USD 1 billion, which is a resilient instrument even in very difficult market conditions.

4.2.2. Solvency – Basel II (New Regulatory Framework)

Using the facility available under the new regulatory framework introduced by Decree-laws 103/2007 and 104/2007, which transposed the principles commonly designated as "Basel II" into Portuguese law, the Group was authorised by the Bank of Portugal to use, as from 1Q09, the Internal Ratings Based (IRB) approach for credit risk and the Standardised Approach – TSA method for operational risk.

The conclusion of this process placed the BES Group in a leadership position in Portugal in terms of risk management and in line with international best practices. BES is currently the only Portuguese bank certified in IRB.

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

4.2.3. Financial Strength: Capital Ratios

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

RISK WEIGHTED ASSETS

EUR million

	June 09	Dec. 09	June 10 [1]
Risk Weighted Assets (A)	**59 453**	**65 097**	**67 469**
Banking Book	52 564	57 426	59 394
Trading Book	3 742	4 003	4 407
Operational Risk	3 147	3 668	3 668
Regulatory Capital (B)	**7 234**	**7 256**	**7 516**
Tier I Capital (C)	**5 263**	**5 405**	**5 668**
- Core Tier I (D)	4 922	5 232	5 300
- Other	341	173	368
(Pref Shares / Tier I)	*(11%)*	*(11%)*	*(11%)*
Tier II and Deductions	**1 971**	**1 851**	**1 848**
Core Tier I (D/A)	**8.3%**	**8.0%**	**7.9%**
Tier I (C/A)	**8.9%**	**8.3%**	**8.4%**
Total (B/A)	**12.2%**	**11.2%**	**11.1%**

(1) preliminary figures

Risk weighted assets increased by 3.6% QoQ, to EUR 67.5 billion, of which EUR 59.4 billion, or 88% of the total, represent credit and counterparty risk.

Tier I capital increased by EUR 263 million in 1H10 due to the incorporation of the period's net earnings (EUR 153 million) and the reduction in equity holdings of less than 10% in financials (50% deducted from Tier I).

Tier I ratio thus increased to 8.4%. Core Tier I and total solvency ratios were 7.9% and 11.1%, respectively.

The post employment benefit liabilities (pensions and medical care) totalled EUR 2,189 million on 30 June 2010 and on balance sheet actuarial differences amounted to EUR 960 million (Jun. 09: EUR 922 million). The annualised return of the BES pension fund assets was -4.5%.

ON BALANCE SHEET ACTUARIAL DIFFERENCES

EUR million

	June 09	June 10
Inside the corridor	204	218
Outside the corridor	718	742
Total	**922**	**960**

On June 2nd, **Moody's** international rating agency reaffirmed BES's financial strength rating (BFSR) at C, maintaining the negative outlook. Following the two-notch downgrade of the Portuguese government's sovereign debt ratings on July 13th, Moody's downgraded eight Portuguese banks, including BES with a one notch downgrade of long term debt (A2/ Prime -1, from A1/Prime-1), with a negative outlook.

Main Equity Stakes in the Available for Sale Portfolio

The main equity stakes in the available for sale portfolio show potential gains of EUR 162.9 million.

MAIN EQUITY STAKES IN THE AVAILABLE FOR SALE PORTFOLIO

EUR million

	Gross Potential Gains and Losses	
	June 09	June 10
Banco Bradesco	147.4	185.1
EDP - Energias de Portugal	-64.8	-74.7
Portugal Telecom	-31.8	46.5
B. Marocaine Com. Exterieur	7.4	6.0
	58.2	**162.9**

The main equity holdings posted a recovery from 1H09, namely Banco Bradesco and Portugal Telecom, which had gross potential capital gains of EUR 185 million and EUR 46.5 million, respectively in 1H10.

In accordance with the current regulatory framework, potential losses are deducted from Core Tier I, adjusted by deferred taxes assets, while only 45% of gross potential gains on securities are eligible as Tier II capital.

4.3. Productivity and Efficiency

Productivity and efficiency levels have been consistently improved in the past few years, through the simplification of processes, the centralisation of functions in highly specialised structures, the merger and integration of activities and investment in new technologies. However, as a result of the higher increase in operating costs than in banking income in 1H10, the Cost to Income rose to 49.3%, with the Cost to Income ex-markets increasing to 60.2%.

The Operating Costs / Average Net Assets ratio improved when compared to 4Q09. Total Assets per Employee declined by 5.4% YoY (excluding the effect of the consolidation of Aman Bank, Total Assets per Employee would decline by 1.8% only)

PRODUCTIVITY AND EFFICIENCY INDICATORS

	1H09	2009	1H10	Change 1H09/ 1H10
Cost to Income	44.2%	43.1%	49.3%	5.1 p.p.
Cost to Income (excluding markets)	51.4%	55.0%	60.2%	8.8 p.p.
Operating Costs / Average Net Assets	1.34%	1.36%	1.34%	0.00 p.p.
Total Assets [1] per Employee (eur '000)	11 389	11 381	10 770	-5.4%

(1) Net Assets + Asset Management + Off-Balance sheet funds + Secuiritised credit

4.4. Bank of Portugal Reference Indicators

The table below lists the reference indicators under Bank of Portugal instruction nº 16/2004 for June 2010 and June 2009.

BANK OF PORTUGAL REFERENCE INDICATORS

%	1H09	1H10
Solvency (e)		
Regulatory Capital / RWA	12,2	11,1
Tier I Capital / RWA	8,9	8,4
Asset Quality		
Overdue and Doubtful Loans (a) / Gross Loans	2,1	2,4
Overdue and Doubtful Loans, net (b)/ Net loans (b)	-0,7	-0,8
Profitability		
Income before Tax and Minorities / Average Equity (c)	12,6	10,2
Banking Income (d)/Average Net Assets	3,0	2,7
Income Before Tax and Minorities / Average Net Assets	0,8	0,8
Efficiency		
General Admin Costs (d)+ Depreciation / Banking Income (d)	44,2	49,3
Staff Costs / Banking Income (d)	23,9	26,2

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

(b) Credit net of Provisions for Overdue Credit and for Doubtful Credit

(c) Includes average Minority Interests

(d) According to BoP Instruction n.16/2004

(e) 1H10 preliminary data

The indicators confirm the described evolution: (i) solvency ratios are above the Bank of Portugal's recommended minimum levels; ii) credit quality indicators deteriorated, although balance sheet provisions exceed overdue and doubtful loans; (iii) profitability indicators are lower than in 1H09, in part due to the full year effect of the capital increase concluded in 2009 or lower net interest income; (iv) efficiency levels declined as a result of the reduction in domestic banking income and the internationalisation effort.

5. OTHER

- On July 6th **Banco Espírito Santo Cabo Verde** inaugurated its premises. The bank, with share capital of EUR 13 million, is scheduled to start providing universal banking services before the end of this month. The new bank will primarily engage in corporate banking, focusing on the areas of tourism, foreign trade and public/private investment in infrastructures, targeting mainly Portuguese companies with trade relations with Cape Verde. Banco Espírito Santo Cabo Verde also intends to have a role in the country's internationalisation process into the West African countries.

- **On July 7th and on July 21st BES made two covered bond issues**, amounting EUR 750 million and EUR 1,250 million, respectively, with seven year maturities. These bonds were issued under the global EUR 10 billion Covered Bonds Programme.
- **On July 21st, following the rating review of the Portuguese banks**, the Fitch ratings agency announced the downgrade of Banco Espírito Santo rating from A+ to A, with negative outlook.

THE BOARD OF DIRECTORS

BANCO ESPÍRITO SANTO, S.A.
CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2010

	June 09 (eur '000)	Dec. 09 (eur '000)	June 10 (eur '000)
Assets			
Cash and deposits at central banks	1 233 081	2 192 317	1 943 001
Deposits with banks	573 941	610 574	500 858
Financial assets held for trading	4 025 414	4 459 484	5 966 222
Financial assets at fair value through profit or loss	1 604 745	1 002 301	1 611 266
Available for sale financial assets	7 387 096	8 531 600	10 114 794
Loans and advances to banks	11 185 164	7 997 807	3 569 738
(ow, ECB)	*(6 250 378)*	*(3 750 026)*	*(425)*
Loans and advances to customers	47 275 495	48 978 847	51 673 579
(Provisions)	*(1 364 580)*	*(1 552 307)*	*(1 681 539)*
Held to maturity investments	2 669 785	2 541 829	2 757 451
Financial assets with repurchase agreements	-	-	-
Hedging derivatives	487 140	455 115	532 552
Non-current assets held for sale	407 525	407 585	486 369
Investment properties	-	-	-
Property and equipment	644 911	658 773	746 402
Intangible assets	123 388	137 885	152 763
Investments in associates	671 596	793 815	851 866
Current income tax assets	57 410	20 929	24 688
Deferred income tax assets	142 157	187 871	237 180
Other assets	2 939 034	3 320 468	3 704 856
Total Assets	**81 427 882**	**82 297 200**	**84 873 585**
Liabilities			
Deposits from central banks	3 238 757	3 817 643	8 995 743
(ow, ECB)	*(1 035 490)*	*(2 005 438)*	*(6 861 735)*
Financial liabilities held for trading	1 584 365	1 561 143	2 169 271
Other financial liabilities at fair value through profit or loss	-	-	-
Deposits from banks	10 350 211	6 895 720	7 112 438
Due to customers	25 155 915	25 446 450	26 082 073
Debt securities issued	30 230 074	33 101 099	29 451 274
Financial liabilities to transferred assets	-	-	-
Hedging derivatives	310 462	253 148	241 304
Non core liabilities held for sale	41 938	21 609	35 217
Provisions	144 637	179 851	179 572
Current income tax liabilities	46 103	133 616	96 655
Deferred income tax liabilities	78 654	79 216	92 082
Capital instruments	-	-	-
Subordinated debt	2 663 796	2 639 071	2 305 591
Other liabilities	1 353 568	1 229 751	1 197 386
Total Liabilities	**75 198 480**	**75 358 317**	**77 958 606**
Equity			
Share capital	3 500 000	3 500 000	3 500 000
Share premium	1 086 586	1 085 399	1 085 396
Other capital instruments	-	-	-
Treasury stock	(25 815)	(25 083)	(24 971)
Preference shares	600 000	600 000	600 000
Fair value reserve	(30 555)	300 833	59 703
Other reserves and retained earnings	666 125	672 063	1 023 085
Profit for the period attributable to equity holders of the Bank	246 205	522 114	282 178
Prepaid dividends	-	-	-
Minority interests	186 856	283 557	389 588
Total Equity	**6 229 402**	**6 938 883**	**6 914 979**
Total Liabilities and Equity	**81 427 882**	**82 297 200**	**84 873 585**

BANCO ESPÍRITO SANTO, S.A.

Consolidated Statement of Income at 30 June 2010

	1H09 (eur '000)	1H10 (eur '000)
Interest and similar income	2 113 265	1 861 406
Interest expense and similar charges	1 463 098	1 315 065
Net interest income	**650 167**	**546 341**
Dividend income	61 988	68 903
Fee and commission income	378 794	426 651
Fee and commission expense	47 112	55 940
Net gains from financial assets at fair value through profit or loss	(239)	(49 845)
Net gains from available for sale financial assets	4 173	165 703
Net gains from foregn exchange differences	(542)	17 404
Net gains from the sale of other assets	(4 193)	(3 242)
Other operating income and expense	102 321	4 857
Operating income	**1 145 357**	**1 120 832**
Staff costs	276 868	298 959
General and administrative expenses	191 934	213 893
Depreciations and amortisation	43 515	50 476
Provisions impairment net of reversals	13 557	12 805
Loans impairment net of reversals	274 129	174 526
Impairment on other financial assets net of reversals	21 833	32 104
Impairment on other assets net of reversals	15 609	19 338
Negative consolidation differences	-	8 260
Equity accounted earnings	13 185	12 499
Net income before income tax and minorities	**321 097**	**339 490**
Income tax		
Current tax	58 957	41 415
Deferred tax	(5 689)	(19 899)
Net income	**267 829**	**317 974**
ow: Net income after discontinued operations	(3 294)	(4 290)
Minority interests	21 624	35 796
Consolidated net income for the period	**246 205**	**282 178**