OFFERING CIRCULAR

Espirito Santo Investment p.l.c.

(incorporated with limited liability in Ireland)

€1,500,000,000
Euro Medium Term Note Programme

with the benefit of a
Keep Well Agreement
provided by

Banco Espirito Santo de Investimento, S.A.

On 23 April 1999 Espirito Santo Investment p.l.c. (the **Issuer** or the **Company**) entered into a €500,000,000 Euro Medium Term Note Programme and issued an Offering Circular on that date describing such programme. On 22 November 2005 the aggregate nominal amount of the Notes issuable under such programme was increased from €500,000,000 to €1,500,000,000. This Offering Circular supersedes all previous Offering Circulars. Any Notes issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes issued before the date of this Offering Circular.

Under this €1,500,000,000 Euro Medium Term Note Programme (the **Programme**), the Issuer may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The Notes will not be guaranteed by Banco Espirito Santo de Investimento, S.A. (the Parent) but the Issuer has the benefit of a Keep Well Agreement dated 22 November 2005 (as amended and/or supplemented and/or restated from time to time) (the Keep Well Agreement) and made between the Issuer and the Parent, the text of which is set out under "*Relationship of the Issuer with the Parent*".

The Issuer has assigned its rights under the Keep Well Agreement by way of security to the Trustee for the benefit of the Noteholders as security for payment of principal and interest on the Notes.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €1,500,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein. A description of the restrictions applicable at the date of this Offering Circular relating to the maturity of certain Notes is set out on page 5.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme and Terms and Conditions of the Notes*" and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a **Dealer** and together the **Dealers**). References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

The purchase of Notes (and, in particular those Notes linked to one or more Relevant Factors (as defined on page 13)) involves substantial risks and is suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and the merits of an investment in the Notes. Before making an investment decision, prospective purchasers of Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider carefully, in the light of their own financial circumstances, financial condition and investment objectives, all the information set forth in the Offering Circular (see "*Risk Factors*").

This Offering Circular (the **Offering Circular**) constitutes a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) for the purpose of giving information with regard to the Notes under the Programme during the period of twelve months after the date hereof. References throughout this document to "Offering Circular" shall be taken to read "Base Prospectus" for such purpose. Application has been made to the Irish Financial Services Regulatory Authority (the **Financial Regulator**), as competent authority under the Prospectus Directive, for the Offering Circular to be approved. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of The Irish Stock Exchange Limited (the **Irish Stock Exchange**) or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any member state of the European Economic Area. Application has been made to the Irish Stock Exchange for such Notes to be admitted to the official list (the **Official List**) and to trading on its regulated market.

References in this Offering Circular to Notes being listed (and all related references) shall mean that such Notes have been admitted to the Official List. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the relevant Issuer and the relevant Dealer(s). The Issuer may also issue unlisted Notes and/or Notes which are not admitted to trading on any market.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms supplement (the **Final Terms**) which, with respect to Notes to be listed on the Irish Stock Exchange will be delivered to the Financial Regulator and the Irish Stock Exchange on or before the date of issue of the Notes of such Tranche.

Copies of the Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets, as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Notes of each Tranche will initially be represented by a temporary global Note (a **Temporary Global Note**) or, if so specified in the applicable Final Terms, a permanent global Note (a **Permanent Global Note**) which in either case will: (i) if the Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and (ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system and which will be exchangeable, as specified in the applicable Final Terms, for either a permanent global Note or Notes in definitive form, in each case upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. The applicable Final Terms will specify that a permanent global Note either (i) is exchangeable (in whole but not in part) for definitive Notes upon not less than 60 days' notice or (ii) is exchangeable (in whole but not in part) for definitive Notes only following the occurrence of an Exchange Event (as defined on page 21), all as further described in "*Form of the Notes*" below.

The Issuer may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

Merrill Lynch International

Dealers

ABN AMRO | **Banco Espirito Santo de Investimento, S.A.**
Citigroup | **Deutsche Bank**
IXIS Corporate & Investment Bank | **Merrill Lynch International**

Morgan Stanley

The date of this Offering Circular is 29 September 2006.

*The Issuer and the Parent (the **Responsible Persons**) accept responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer and the Parent (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

Neither the Dealers nor the Trustee have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer or the Parent in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer and the Parent under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Parent, the Trustee or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer, the Parent, the Trustee or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Parent. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer by or on behalf of the Issuer, the Parent, the Trustee or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall at any time imply that the information contained herein concerning the Issuer and/or the Parent is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Parent during the life of the Programme. Investors should review, inter alia, the documents deemed to be incorporated herein by reference when deciding whether or not to purchase any Notes.

The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Parent, the Trustee and the Dealers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Parent, the Trustee or the Dealers which would permit a public offering of any Notes outside Ireland or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, Ireland, Portugal, the Netherlands and Germany) and Japan (see "Subscription and Sale").

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the ***Securities Act****) and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "Subscription and Sale" below).*

All Notes having a term of less than one year constitute commercial paper and are issued in accordance with an exemption granted by the Irish Financial Services Regulatory Authority, as a constituent part of the Central Bank and Financial Services Authority of Ireland (the ***Irish Financial Services Regulatory Authority****), under Section 8(2) of the Central Bank Act, 1971, inserted by Section 31 of the Central Bank Act, 1989, as amended by Section 70(d) of the Central Bank Act, 1997. The Notes do not have the status of bank deposits, are not within the scope of the Deposit Protection Scheme operated by the Irish Financial Services Regulatory Authority and the Issuer is not regulated by the Irish Financial Services Regulatory Authority arising from the issue of commercial paper.*

All references in this document to ***U.S. dollars*** *and* ***U.S.$*** *refer to the currency of the United States of America, those to* ***Sterling*** *and* ***£*** *refer to the currency of the United Kingdom and those to* ***euro*** *and* ***€*** *refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.*

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on a regulated market in the European Economic Area, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake such stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the allotment of the relevant Tranche of Notes.

SUMMARY OF THE PROGRAMME AND TERMS AND CONDITIONS OF THE NOTES

This summary must be read as an introduction to this Offering Circular and any decision to invest in any Notes should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular. Where a claim relating to information contained in this Offering Circular is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Offering Circular before the legal proceedings are initiated.

Words and expressions defined or used in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" below shall have the same meanings in this summary.

Issuer:	Espirito Santo Investment p.l.c.
Parent:	Banco Espirito Santo de Investimento, S.A.
Keep Well Agreement:	The Issuer has the benefit of a Keep Well Agreement with the Parent and the Issuer has assigned by way of security its rights under the Keep Well Agreement to the Trustee for the benefit of the Noteholders. The Notes will not be guaranteed by the Parent.
Risk Factors:	There are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme, see "*Risk Factors*".
Description:	Euro Medium Term Note Programme
Arranger:	Merrill Lynch International
Dealers:	ABN AMRO Bank N.V. Banco Espirito Santo de Investimento, S.A. Citigroup Global Markets Limited Deutsche Bank AG, London Branch IXIS Corporate & Investment Bank Merrill Lynch International Morgan Stanley & Co. International Limited
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*". Unless otherwise permitted by the current laws and regulations or by the Financial Regulator Notes having a term of less than one year must have a minimum denomination of €125,000 (or its equivalent in other currencies).

Trustee:	Citicorp Trustee Company Limited
Issuing and Principal Paying Agent:	Citibank, N.A.
Programme Size:	Up to €1,500,000,000 (or its equivalent in other currencies calculated as described herein on page 20) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer, including, without limitation, Australian dollars, Canadian dollars, Czech koruna, Danish kroner, euro, Hong Kong dollars, Japanese Yen, New Zealand dollars, Norwegian kroner, Sterling, South African Rand, Swedish kronor, Swiss francs and United States dollars (as indicated in the applicable Final Terms). Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*").
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. At the date of this Offering Circular, the minimum maturity of Subordinated Notes will be five years and one day to enable such Notes to qualify as capital for supervisory purposes from time to time.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par
Form of Notes:	The Notes will be in bearer form and will on issue be represented by either a temporary global Note or a permanent global Note as specified in the applicable Final Terms. Temporary global Notes will be exchangeable either for (a) interests in a permanent global Note or (b) for definitive Notes as indicated in the applicable Final Terms. Permanent global Notes will be exchangeable for definitive Notes upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such permanent global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event as described under "*Form of the Notes*".
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption.

Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. as indicated in the applicable Final Terms. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
Indexed Notes:	Payments of principal in respect of Indexed Redemption Amount Notes or of interest in respect of Indexed Interest Notes will be calculated by reference to such index and/or formula as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).
Other provisions in relation to Floating Rate Notes and Indexed Interest Notes:	Floating Rate Notes and Indexed Interest Notes may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms). Interest on Floating Rate Notes and Indexed Interest Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer (but subject to the prior consent of the Bank of Portugal in respect of Subordinated Notes) and/or the Noteholders (in the case of Senior Notes only) upon giving not less than 30 nor more than 60 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

	Any early redemption of Dated Subordinated Notes or Undated Subordinated Notes shall be subject to the prior consent of the Bank of Portugal. The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions – Notes having a maturity of less than one year*" above and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €1,000 (or if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by or on behalf of Ireland, subject as provided in Condition 7.
Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 3. The terms of the Subordinated Notes will contain no negative pledge.
Cross Default:	The terms of the Senior Notes will contain a cross-default provision as further described in Condition 9. The terms of the Subordinated Notes will contain no cross default provision.
Status of the Senior Notes:	The Senior Notes and the relative Receipts and Coupons (if any) will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured (subject as aforesaid) and unsubordinated obligations of the Issuer, present and future, subject to mandatory provisions of law affecting creditors' rights generally and statutorily preferred obligations.
Status of the Dated Subordinated Notes:	The Dated Subordinated Notes and the relative Receipts and Coupons (if any) will constitute direct and unsecured obligations of the Issuer, subordinated as hereinafter referred to, and will rank *pari passu* without any preference among themselves. The claims of the holders of the Dated Subordinated Notes and the relative Receipts and Coupons (if any) will, in the event of the bankruptcy or winding up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all unsubordinated creditors of the Issuer and will rank, in the event of the winding up of the Issuer, at least *pari passu* in right of payment with all other Subordinated Indebtedness (as defined in Condition 2*(b)*), present and future, of the Issuer.

Status of the Undated Subordinated Notes:	The Undated Subordinated Notes and the relative Coupons (if any) will constitute direct and unsecured obligations of the Issuer, subordinated as hereinafter referred to, and will rank *pari passu* without any preference among themselves. The claims of the holders of the Undated Subordinated Notes and the relative Coupons (if any) will, in the event of the bankruptcy or winding up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of Senior Creditors of the Issuer (as defined in Condition 2*(c)*(ii)). *In order to allow the Issuer (and the Parent, by virtue of the corresponding provision of the Keep Well Agreement) to continue its (their) business activities, any amounts which, but for the provisions of Condition 4(e) or, as the case may be, the insolvency of the Issuer or the Parent, would be payable as interest or principal on the Undated Subordinated Notes (or the corresponding amounts the Parent is required to make available to the Issuer under the Keep Well Agreement) will be available to meet the losses of the Issuer (or the Parent, as the case may be).*
Status of the Parent's obligations under the Keep Well Agreement:	The Parent's obligations under the Keep Well Agreement are, with regard to the Dated Subordinated Notes and the Undated Subordinated Notes, subordinated as described in Condition 2*(e)*.
Listing:	Application has been made to the Financial Regulator, as competent authority under the Prospectus Directive, for the Offering Circular to be approved. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any member state of the European Economic Area. Application has been made to the Irish Stock Exchange for such Notes to be admitted to the Official List and to trading on its regulated market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.
Governing Law:	The Notes will be governed by, and construed in accordance with, English law except that, in relation to Subordinated Notes, Conditions 2*(b)* and 2*(c)* will be governed by, and construed in accordance with, Irish law. The Trust Deed will be governed by, and construed in accordance with, English law except that, in relation to Subordinated Notes, clauses 6(B) and 6(C) will be governed by, and construed in accordance with, Irish law. The Keep Well Agreement will be governed by, and construed in accordance with, English law, except that clauses 3 and 4 will be governed by, and construed in accordance with, Portuguese law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom, Ireland, Portugal, the Netherlands and

Germany) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".

RISK FACTORS

Each of the Issuer and the Parent believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Parent is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Each of the Issuer and the Parent believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer or the Parent to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and neither the Issuer nor the Parent represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Factors which are material for the purposes of assessing the Parent's ability to fulfil its obligations under the Keep Well Agreement.[1]

Credit Portfolio

Due to the composition of the Parent's main business segments, credit and market risks are actively managed on a consolidated basis for the Parent and all subsidiaries held by the Parent. The consolidated gross client loan book at the end of 2005 increased by 53.6% with respect to the previous year. The Parent's rating profile and sector distribution reflects its main loan activities with a remaining focus on project finance and leveraged finance. The transport infrastructure sector, which includes the financing of virtual toll roads and railways, together with the energy sector, which includes the financing of wind farms, co-generation and production of electricity and natural gas, amounted to 46% of the loan portfolio in 2005.

Around 57.2% of the loan portfolio is investment grade and as at 31 December 2005 the Parent's guarantees and advances amounted to 124.2 million euros. The non-investment grade loans include mostly complex loans, generally guaranteed by real assets, which are not described by the ratings agencies but are useful in risk diversification, namely in the area of expected losses. The industry sectors financed are widely diversified, with particular emphasis on Transport Infrastructure, Electricity, Gas and Water Production, Transport and Storage, Health and Safety, Telecoms, Food Beverages and Tobacco, Chemicals and other collective services. The geographical distribution of loans, unused Credit lines and guarantees granted to third parties and customers is concentrated mainly in Portugal and Spain.

Unused credit lines amounted to approximately €257.6 million at the end of 2005, relating mainly to undrawn funding for project finance transactions. These undrawn amounts were mostly in the Transport Infrastructure, Electricity, Gas and Water Production, Construction and retail and wholesale sectors. Overall loans, non-used credit lines, guarantees and advances were distributed by country as follows: Portugal 49.2% and Spain 35.2%, reflecting the Parent's presence in the Iberian market.

Note:

1 The Keep Well Agreement is not, and should not be regarded as equivalent to, a guarantee by the Parent of any payment in respect of the Notes. The Issuer has, under the terms of the Trust Deed, assigned its rights under the Keep Well Agreement by way of security to the Trustee for the benefit of the Noteholders as security for payment of principal and interest on the Notes. Following an Event of Default, the Trustee will be entitled, on behalf of the Noteholders, to enforce such security and to enforce the Issuer's rights under the Keep Well Agreement against the Parent in accordance with the terms of the Trust Deed. Enforcement in the English courts will be subject, among other things, to the powers of such courts to stay proceedings and other principles of law and equity of general application.

The Parent's participation, signature and execution of any of the programme documentation and the existence of Keep Well Agreement does not correspond to, nor can it be construed as, any form of undertaking of liability by the Parent against the Noteholders, without prejudice to the assignment by way of security of the rights of the Issuer under the Keep Well Agreement pursuant to the Trust Deed.

Financial and other information concerning the Parent is provided for background purposes only in view of the importance of the Keep Well Agreement; it should not be treated as implying that the Keep Well Agreement can be viewed as a guarantee.

Despite the increase in loans and interest in 2005, the Parent kept its bad debt ratio relatively stable: 1.27% at year end 2005 compared to 0.9% in 2004. Given the increase in the loan portfolio and the Parent's more conservative approach, provisions increased by around 3.2 million euros, this maintaining a comfortable bad debt cover of around 152.8%.

Interest Rate, Currency and Equity Derivatives.

The interest rate, currency and Equity Derivatives Portfolio (calculated, in accordance with the guidelines issued in Notice 1/93 issued by the Bank of Portugal, as the sum of the replacement cost and potential future credit exposure) increased by 66.6% in 2005, given greater activity in these business areas, to 275.4 million euros.

The Parent's exposure is mostly with counterparts with A- or higher rating, of which 59% is in the global banking sector, ie European and US financial institutions.

Loan Derivatives Portfolio.

The Loan Derivatives portfolio risk is measured based on the notional value of the underlying contracts with the issuer where the Parent is buying cover, and of the counterpart, where the Parent is selling cover to other financial institutions. The Loan Derivatives' Portfolio risk reached 197.3 million euros in 2005, an increase of 7.2% compared to 2004. The risk was spread across mostly BBB- or higher (investment grade) contracts with European and US institutions in the financial and telecoms sectors.

Bonds Portfolio

The fixed income bond portfolio reached 640 million euros (net) in 2005, an increase of 47.1% over the previous year. The fixed income bond portfolio is highly weighted by the BES Investimento do Brasil portfolio, which consists of, mainly, Brazilian National Treasury Notes and Central Bank of Brazil Notes (in local currency). Most of the portfolio, 79.5%, is in financial services, Public works, defence and social security, ie: liquid and high investment grade bonds.

To ensure geographical and sector diversification the Parent uses structured products such as Credit Default Swaps and Credit Linked Notes, underwritten by European and US financial institutions.

The Parent's policy is to hedge the sovereign risk inherent in securities issued by emerging markets (notably Brazil) through the issuance of Credit Linked Notes, the acquisition of Credit Default Swaps and also through guarantees provided by third parties, generally with exposures in Europe and the United States.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features.

Notes subject to optional redemption by the Issuer

Unless in the case of any particular Tranche of Notes the relevant Final Terms specify otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the jurisdiction of incorporation of the Issuer or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms specify that the Notes are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Indexed Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Indexed Notes. Accordingly, you should consult

your own financial and legal advisers about the risk entailed by an investment in any Indexed Notes and the suitability of such Notes in light of their particular circumstances.

Credit Linked Notes

Country and Regional Risk

The price and value of the Reference Obligations (as defined in the applicable Final Terms) may be influenced by the political, financial and economic stability of the country and/or region in which the Reference Entities (as defined in the applicable Final Terms) are incorporated or have their principal place of business or of the country in the currency of which the obligations under the Notes are denominated. In certain cases the price and value of assets originating from countries not ordinarily considered to be emerging markets countries may behave in a manner similar to those of assets originating from emerging markets countries.

Emerging Markets

The Reference Entities and the Reference Obligations may originate from an emerging markets country. Investing in securities issued by entities in emerging markets countries or in securities, the return of which is linked to such securities, involves certain systemic and other risks and special considerations which include:

(i) the prices of emerging markets assets may be subject to sharp and sudden fluctuations and declines;

(ii) emerging markets securities and other assets tend to be relatively illiquid. Trading volume may be lower than in debt of higher grade credits. This may result in wide bid/offer spreads prevailing in adverse market conditions. In addition, the sale or purchase price quoted for the Reference Obligations may vary depending on the size of the holding for which a quotation is sought; and

(iii) published information in or in respect of emerging markets countries and the issuers of or obligors in respect of emerging markets securities or other assets has been proven on occasions to be materially inaccurate; and

(iv) delivery of Reference Obligations which are emerging markets securities or other assets may be subject to restrictions or delays arising under local law.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the

Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally.

Modification, waivers and substitution

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such.

EU Savings Directive

In view of the implementation of this Directive, if a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Trading in the clearing systems

Notes issued under the Programme may be represented by one or more global Notes. Such global Notes may be deposited with a common depositary for the clearing systems. Except in the circumstances described in the relevant global Note, investors will not be entitled to receive definitive Notes. The clearing systems will maintain records of the beneficial interests in the global Notes. While the Notes are represented by one or more global Notes, investors will be able to trade their beneficial interests only through the clearing systems.

While the Notes are represented by one or more global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for the clearing systems for distribution to their account holders. A holder of a beneficial interest in a global Note must rely on the procedures of the clearing systems to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the global Notes.

Holders of beneficial interests in the global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the clearing systems to appoint appropriate proxies.

In relation to any issue of Notes which have a minimum denomination and are tradable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

Some Instruments may be subordinated to most of the Issuer's liabilities

If in the case of any particular Tranche of Notes the relevant Final Terms specify that the Notes are subordinated obligations of the Issuer and the Issuer is declared insolvent and a winding up is initiated, it will be required to pay the holders of senior debt and meet its obligations to its unsecured creditors in full before it can make any payments on the relevant Notes. If this occurs, the Issuer may not have enough assets remaining after these payments to pay amounts due under the relevant Notes.

Loss of investment

If, in the case of any particular Tranche of Notes, the relevant Final Terms specify that the Notes are Index or Credit Linked, there is a risk that any investor may lose the value of their entire investment or part of it.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Specific risks related to the Parent's market

Market risk is considered as the potential loss of value in a portfolio of financial instruments, arising from fluctuations in market variables such as credit spreads, interest rates, currency exchange rates, share and share-index prices and commodity prices. The market risk of the Parent is identified, valued, monitored and controlled by a specific business unit (the **Risk Control Unit**), which is fully independent of the Parent's business units. The Risk Control Unit is part of the Risk Department and reports directly to a board member and to the Executive Committee.

The Risk Control Unit is responsible for proposing control checks, performing statistical analysis of the relevant risk factors, measuring market volatility, analysing liquidity and running sensitivity analysis on the business under consideration. In addition to the computation results, control checks are also measured against the track record of the business unit and its strategic objectives, thus reflecting the Parent's appetite for each type of risk.

Control checks are submitted to and approved by the Credit and Risk Committee (**CRC**) of each business unit and subsequently submitted for approval to the Espirito Santo Investment Executive Committee or CRC in Lisbon. Control checks are reviewed at least once a year or whenever justified by changes in strategic options or market conditions. To build a comprehensive as possible risk profile, several complementary risk management measures are used, such as stop loss and concentration limits. Risk management measures include VaR and Stress Testing and sensitivity models include BPV and ''greeks'' (Vega and Rho). The VaR model is adjusted by a back-testing analysis. The implementation of risk management and control procedures depends on the market and business to which they apply.

In addition, the financial portfolio of the Parent is comprised of some financial instruments where a reference market price is unavailable. In such cases, these financial instruments are valued using theoretical valuation models. The valuation models are subsequently employed to manage and control positions, namely to compare them against approved control checks.

The Parent also uses price testing methodology to:

(i) review the models and examine their suitability;

(ii) establish the reasonableness, independence and consistency of the data used by the models;

(iii) verify the consistency of the algorithms used;

(iv) compare the results obtained with those collected from other market agents.

The Parent's equities portfolio is susceptible to stockmarket fluctuations and security allocation over various industry sectors. Emerging Markets exposure, mainly Brazilian risk, is contingent on the composition of emerging markets bonds held at any point in time.

In 2005, the Parent increased its exposure to emerging markets, namely Brazil, given the improvement in the Brazilian market and the Group's performance. The net exposure for the year ended 2005 was 454 million euros, corresponding to 12.49% of the total consolidated net asset base, with only 5.9%, amounting to 27 million euros, in a foreign currency.

In 2005, net assets increased by around 45% (1.12 billion euros), with a decrease in inter-bank liabilities and increase in client liabilities and debt issued. Funding was therefore diversified. The liquidity gap underwritten by inter-bank borrowings was, as at 31 December 2005, around 11% of total liabilities, amounting to 401 million euros in total, of which 259 million was with Group related companies. The Parent's overall contribution to Group inter-bank debt was therefore less than 142 million euros.

Operating Risk is defined by the Group as the risk occurring from inadequate or negligent application of internal procedures or systems, or human behaviour or external factors which lead to

financial losses or may have a negative client or other stakeholder impact, in addition to the risk occurring from variations in business and volume, turnover and price or cost structure (business versus strategic risk). The Parent undertook an exercise on the consistent application of its internal control systems in its principal areas of business. This exercise led to the assessment of the main operating risks, appropriate controls and mitigation approaches. The Parent considers that best practice in relation to information management systems and regular assessment of asset quality and performance against (by checking performance against third parties) helps limit and control risk.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Offering Circular and have been filed with the Financial Regulator shall be incorporated in, and form part of, this Offering Circular:

- the auditors' report and audited statutory financial statements for the financial years ended December 2004 of the Parent and December 2005 and December 2004 of the Issuer, incorporating the balance sheet, profit and loss account, cash flow statement, accounting policies and explanatory notes in respect of 2004 and the balance sheet, income statement, cash flow statement, accounting policies and explanatory notes in respect of 2005.

Following the publication of this Offering Circular a supplement may be prepared by the Issuer and approved by the Financial Regulator in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise) be deemed to modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Dublin.

The Issuer and the Parent will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency (including euro) subject as set out herein. A summary of the Terms and Conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under "Form of the Notes" below.

This Offering Circular and any supplement will only be valid for Notes listed on the UKLA Official List and admitted to trading by the London Stock Exchange and/or the Irish Stock Exchange during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €1,500,000,000 (or its equivalent in other currencies) or such greater amount as may be agreed from time to time in accordance with the terms of the Programme Agreement. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the euro equivalent of Notes denominated in another Specified Currency shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of such Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the euro equivalent of Dual Currency Notes, Indexed Notes and Partly Paid Notes shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and

(c) the euro equivalent of Zero Coupon Notes and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a Temporary Global Note or, if so specified in the applicable Final Terms, a Permanent Global Note, which in either case will:

(i) if the Global Notes are intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper for Euroclear and Clearstream, Luxembourg; and

(ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a the Common Depositary for Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Any reference in this section "*Form of the Notes*" to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Trustee and the Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein for either (i) interests in a Permanent Global Note without receipts, interest coupons or talons or (ii) definitive Notes with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the Temporary Global Note is improperly withheld or refused. Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*" below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer or, in the case of a syndicated issue, the lead manager) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) or any other amount on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in the NGN form) without any requirement for certification. The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event as described therein. **Exchange Event** means (i) an Event of Default has occurred and is continuing, (ii) the Issuer has been notified that either Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 7 which would not be required were the Notes represented by the Permanent Global Note in definitive form. The Issuer will

promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur on the date specified in such notice being in any event not more than 60 days after the date of receipt of the first relevant notice by the Agent.

Global Notes and definitive Notes will be issued pursuant to and in accordance with the Agency Agreement.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

The following legend will appear on all global Notes, definitive Notes, receipts, interest coupons and talons having a maturity of more than 365 days:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

APPLICABLE FINAL TERMS

The Final Terms applicable to each Tranche of Notes will be in the following form and will contain such information as is applicable in respect of such Notes (all references to numbered Conditions being to the Terms and Conditions of the relevant Notes):

ESPIRITO SANTO INVESTMENT p.l.c.

[Title of relevant Series of Notes (specifying type of Notes)]
issued pursuant to the €1,500,000,000 Euro Medium Term Note Programme
with the benefit of a Keep Well Agreement
provided by

BANCO ESPIRITO SANTO DE INVESTIMENTO, S.A.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Offering Circular dated 29 September 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular is available for viewing at [*address*] and [*website*] and copies may be obtained from [*address*].

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Conditions**) set forth in the Offering Circular dated [*original date*]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circulars dated 29 September 2006 and [*original date*]. Copies of such Offering Circulars are available for viewing at [*address*] [and] [*website*] and copies may be obtained from [*address*].]

[*Include whichever of the following apply or specify items as ''Not Applicable'' (N/A). Note that the numbering should remain as set out below, even if ''Not Applicable'' is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.*]

[*When adding any other final terms or information consideration should be given as to whether such terms or information constitute significant new factors and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.*]

[***If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.***]

[***The Notes constitute commercial paper issued in accordance with an exemption granted by the Irish Financial Services Regulatory Authority, as a constituent part of the Central Bank and Financial Services Authority of Ireland (the Irish Financial Services Regulatory Authority), under Section 8(2) of the Central Bank Act, 1971 inserted by Section 31 of the Central Bank Act, 1989, as amended by Section 70(d) of the Central Bank Act, 1997. The Notes do not have the status of bank deposits and are not within the scope of the Deposit Protection Scheme operated by the Irish Financial Services Regulatory Authority and the Issuer is not regulated by the Irish Financial Services Regulatory Authority arising from the issue of commercial paper.***]*

* Include the following if the Notes have a term of less than 366 days (to allow for a leap year).

[***Unless otherwise permitted by then current laws and regulations or by the Irish Financial Services Regulatory Authority, Notes having a term of less than one year must have a minimum denomination of Euro 125,000 (or its equivalent in other currencies)***.]

1.	Issuer:	[ ]
2.	[(i)] Series Number:	[ ]
	[(ii) Tranche Number:	[ ] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)]
3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount:	
	[(i)] Series:	[ ]
	[(ii)] Tranche:	[ ]
5.	Issue Price of Tranche:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [[*insert date*] (*if applicable*)]
6.	Specified Denominations:	[ ] *(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €1,000 minimum denomination is not required)*
7.	[(i)] Issue Date:	[ ]
	[(ii) Interest Commencement Date (if different from the Issue Date):	[ ]]
8.	Maturity Date:	[*Fixed rate – specify date/Floating rate* – Interest Payment Date falling in [*specify month and year*]]
9.	Interest Basis:	[[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR] [ ] per cent. Floating Rate] [Zero Coupon] [Indexed Interest Notes] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index linked redemption] [Dual Currency] [Partly Paid] [Instalment] [*specify other*] (further particulars specified below) *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)*

11.	Change of Interest Basis or Redemption/ Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Status of the Notes:	[Senior/[Dated/Undated] Subordinated]
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	**Fixed Rate Note Provisions:**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[ ] per cent. per annum [payable [annually/ semi-annually/quarterly] in arrear] *(If payable other than annually, consider amending Condition 4(a))*
	(ii) Interest Payment Date(s):	[ ] in each year [*up to and including the Maturity Date/specify other*]
	(iii) Fixed Coupon Amount[(s)]:	[ ] per [ ] in nominal amount
	(iv) Broken Amount(s):	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount*]
	(v) Fixed Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or *specify other*](Note that if interest is not payable on a regular basis (for example, if there are Broken Amounts specified) Actual/Actual (ICMA) will not be a suitable day count fraction)
	(vi) Determination Date(s):	[ ] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*] *(NB: only relevant where Day Count Fraction is Actual/Actual (ICMA))*
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]
16.	**Floating Rate Note Provisions:**	[Applicable/Not Applicable]. *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(ii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ [*specify other*]]
	(iii) Additional Business Centre(s):	[ ]
	(iv) Manner in which the Rate of Interest [and Interest Amount] is to be determined:	[ISDA Determination/Screen Rate Determination/ *specify other*]

(v)	Party responsible for determining the Rate of Interest and calculating the Interest Amount (if not the Agent):	[ ]
(vi)	ISDA Determination:	
	– Floating Rate Option:	[ ]
	– Designated Maturity:	[ ]
	– Reset Date:	[ ]
(vii)	Screen Rate Determination:	
	– Reference Rate:	[ ] *(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*
	– Interest Determination Date(s):	[ ] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
	– Relevant Screen Page:	[ ] *(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
(viii)	Margin(s):	[ ] [ ] per cent. per annum
(ix)	Minimum Rate of Interest:	[ ] per cent. per annum
(x)	Maximum Rate of Interest:	[ ] per cent. per annum
(xi)	Day Count Fraction:	[Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 Other] *(See Condition 4 for alternatives)*
(xii)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
17.	**Zero Coupon Note Provisions:**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Accrual Yield:	[ ] per cent. per annum
(ii)	Reference Price:	[ ]
(iii)	Any other formula/basis of determining amount payable:	[ ]
(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 6(*e*)(iv) and *(j)* apply/*specify other*] *(Consider applicable day count fraction if not U.S. Dollar denominated*)

18.	**Indexed Note Provisions:**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Index/Formula:	[*give or annex details*] [*Need to include a description on how any return on the Notes takes place and the way it is calculated*]
	(ii) Calculation Agent responsible for calculating the principal and/or interest due:	Banco Espirito Santo de Investimento, S.A., Rua Alexandre Herculano, 38, 1269-161 Lisbon, Portugal (*unless otherwise specified in the final terms and conditions of the relevant Note*)
	(iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(iv) Interest Period(s):	[ ]
	(v) Specified Interest Payment Dates	[ ]
	(vi) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ *other* (*give details*)]
	(vii) Additional Business Centre(s):	[ ]
	(viii) Minimum Rate of Interest:	[ ] per cent. per annum
	(ix) Maximum Rate of Interest:	[ ] per cent. per annum
	(x) Day Count Fraction:	[ ]
19.	**Dual Currency Note Provisions:**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable:	Banco Espirito Santo de Investimento, S.A., Rua Alexandre Herculano, 38, 1269-161 Lisbon, Portugal (*unless otherwise specified in the final terms and conditions of the relevant Note*)
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[ ]
20.	**Credit Linked Notes/First to Default Linked Notes Provisions:**	[Applicable/Not Applicable] *(If applicable, insert all provisions relevant for the calculation of interest in respect of such Notes or set out in full in an annex to this Final Terms)*

PROVISIONS RELATING TO REDEMPTION

21.	Issuer Call:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[ ]

	(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[ ]
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[ ]
	(b) Higher Redemption Amount:	[ ]
	(iv) Notice period (if other than as set out in the Conditions):	[ ] *(NB: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
22.	Investor Put:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[ ]
	(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[ ]
	(iii) Notice period (if other than as set out in the Conditions):	[ ] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
23.	Final Redemption Amount of each Note:	[Par/*specify other*/see Appendix] *(N.B. In relation to any issue of Notes which are expressed at paragraph 6 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than that minimum denomination, the following wording should be added: For the avoidance of doubt, in the case of a holding of Notes in an integral multiple of [ ] in excess of [ ] as envisaged in paragraph [6] above, such holding will be redeemed at its nominal amount)* *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)*
24.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(e)):	[ ]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	(a) Form of Notes:	[Bearer Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] (*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. Need to amend Exchange Events to disapply any Noteholder/Issuer optional exchange where Notes are expressed to have a minimum denomination of €50,000 and are tradeable in integral multiples of €1,000 thereafter in order for Notes to be accepted by the clearing systems*)
	(b) New Global Note:	[Yes][No]]
26.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*]. *(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(iii) and 18(vii) relate)*
27.	Talons for further Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
29.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
30.	Consolidation provisions:	[Not Applicable/*give details*]
31.	Other final terms:	[Not Applicable/*give details*] *(When adding any other final terms consideration should be given as to whether such terms constitute significant new factors and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive)*

DISTRIBUTION

32.	(i)	If syndicated, names [and addresses] of Managers [and underwriting commitments]:	[Not Applicable/*give names and addresses and underwriting commitments*] *(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a best efforts basis if such entities are not the same as the Managers)*
	(ii)	Date of [Subscription] Agreement:	[ ]
	(iii)	Stabilising Manager (if any):	[Not Applicable/*give name*]
33.		If non-syndicated, name and address of relevant Dealer:	[*name and address*]
34.		Total commission and concession:	[ ] per cent. of the Aggregate Nominal Amount
35.		Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable]
36.		Additional selling restrictions:	[Not Applicable/*give details*]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €1,500,000,000 Euro Medium Term Note Programme of Espirito Santo Investment plc.]

Citibank, N.A.
[(as Agent)]

PART B – OTHER INFORMATION

1. LISTING

(i)	Listing:	[Ireland/London/Luxembourg/other *(specify)*/ None]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ]] [Not Applicable] *(Where documenting a fungible issue need to indicate that original securities are already admitted to trading)***
(iii)	Estimate of total expenses related to admission to trading:	[ ]*

2. RATINGS

Ratings:	The Notes to be issued have been rated: [S & P: [ ]] [Moody's: [ ]] [[Other]: [ ]] [*Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider*]** *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)*

3. NOTIFICATION

The Financial Regulator [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues]* the *[names of competent authorities of host Member States]* with a certificate of approval attesting that the Offering Circular has been drawn up in accordance with the Prospectus Directive.]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer:	[ ] (*See [Use of Proceeds] wording in Offering Circular – if reasons for offer different from making profit and/ or hedging certain risks will need to include those reasons here*)]**
[(ii)] Estimated net proceeds:	[ ] (*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding*)**
[(iii)] Estimated total expenses:	[ ]. [*Expenses are required to be broken down into each principal intended use and presented in order of priority of such uses*.]** (*N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required*)

6. YIELD (Fixed Rate Notes only)

Indication of yield:	[ ] [Calculated as [*include details of method of calculation in summary form*] on the Issue Date.]** The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. HISTORIC INTEREST RATES (*Floating Rate Notes only*)**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]

8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***

*[*Where *the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

[Need to include details of the exercise price or final reference price of the underlying.]

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (*Dual Currency Notes only*)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***

10. OPERATIONAL INFORMATION

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(vi)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No] [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [*include this text if "yes" selected in which case the Notes must be issued in NGN form*]

Notes:

* *Delete if the minimum denomination is less than €50,000*

** *Delete if the minimum denomination is €50,000*

RESPONSIBILITY

The Issuer and the Parent accept responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By.....

Duly authorised

Signed on behalf of the Parent:

By.....

Duly authorised

KEEP WELL AGREEMENT

Banco Espirito Santo de Investimento, S.A. hereby confirms that the Keep Well Agreement executed on 22 November 2005 (as amended and/or supplemented and/or restated from time to time) will apply in relation to the Notes of this Series.

Signed on behalf of the Parent:

By.....

Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to ***Form of the Notes*** *above for a description of the content of Final Terms which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Espirito Santo Investment p.l.c. (the **Issuer**) constituted by a Trust Deed dated 23 April, 1999 (as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) made between the Issuer, Banco Espirito Santo de Investimento, S.A. (the **Parent**) and Citicorp Trustee Company Limited (the **Trustee**, which expression shall include any successor as trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a **Global Note**), units of the lowest Specified Denomination in the Specified Currency;

(ii) any Notes in definitive form (**Definitive Notes**) issued in exchange for a Global Note; and

(iii) any Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement dated 23 April 1999 (as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between the Issuer, the Parent, the Trustee, Citibank, N.A. as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent specified in the applicable Final Terms) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents). The Issuer has the benefit of a Keep Well Agreement dated 22 November 2005 (as amended and/or supplemented and/or restated from time to time, the **Keep Well Agreement**) made between the Issuer and the Parent.

The Trustee acts for the benefit of the holders for the time being of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

Interest bearing Definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue.

The Final Terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the "*applicable Final Terms*" are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or

Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Agency Agreement, the Keep Well Agreement and the applicable Final Terms are available for inspection during normal business hours at the office of the Trustee (at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and at the specified office of each of the Agent and the other Paying Agents and at the registered office of the Issuer save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be available for inspection by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Trustee or the relevant Paying Agent as to its holding of Notes and as to its identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are binding on them.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of Definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Senior Note, a Dated Subordinated Note or an Undated Subordinated Note, as indicated in the applicable Final Terms.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Note, an Indexed Redemption Amount Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note or a combination of any of the foregoing or any other type of Note, depending upon the Interest/Payment Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Parent, the Trustee and any Paying Agent may to the fullest extent permitted by applicable law deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Parent, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Parent, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related

expressions shall be construed accordingly. Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Trustee and the Agent.

2. Status and subordination

(a) Status of the Senior Notes

The Senior Notes and the Receipts and Coupons relating thereto (if any) constitute direct, unsubordinated, unconditional and (subject to Condition 3) unsecured obligations of the Issuer and rank *pari passu*, without any preference among themselves, with all other outstanding unsecured (subject as aforesaid) and unsubordinated obligations of the Issuer, present and future, subject to mandatory provisions of law affecting creditors' rights generally and statutorily preferred obligations.

(b) Status and Subordination of the Dated Subordinated Notes

(i) The Dated Subordinated Notes and the Receipts and Coupons relating thereto (if any) constitute direct, unsecured and, in accordance with sub-paragraph (ii) below, subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.

(ii) The claims of the holders of the Dated Subordinated Notes and the Receipts and Coupons relating thereto (if any) will, in the event of the bankruptcy or winding up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all unsubordinated creditors of the Issuer and will rank, in the event of the winding up of the Issuer, at least *pari passu* in right of payment with all other Subordinated Indebtedness, present and future, of the Issuer.

For the purposes of this paragraph *(b)*, **Subordinated Indebtedness** means all indebtedness of the Issuer which is subordinated, in the event of the bankruptcy or winding up of the Issuer, in right of payment to the claims of unsubordinated creditors of the Issuer other than indebtedness which ranks or is expressed to rank junior to the Dated Subordinated Notes and for this purpose indebtedness shall include all liabilities, whether actual or contingent.

(c) Status and Subordination of the Undated Subordinated Notes

(i) The Undated Subordinated Notes and the Coupons relating thereto (if any) constitute direct, unsecured and, in accordance with paragraph (ii) below, subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.

(ii) The claims of the holders of the Undated Subordinated Notes and the Coupons relating thereto (if any) will, in the event of the bankruptcy or winding up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of Senior Creditors of the Issuer (as defined below). For the purpose of this sub-paragraph (ii), **Senior Creditors of the Issuer** means creditors of the Issuer (1) who are unsubordinated creditors of the Issuer; or (2) who are subordinated creditors of the Issuer (including the holders of Dated Subordinated Notes and the Receipts and Coupons relating thereto (if any)) other than those whose claims rank, or are expressed to rank, *pari passu* with or junior to the claims of the holders of the Undated Subordinated Notes and the Coupons relating thereto (if any) (whether only in the event of a bankruptcy or winding up of the Issuer or otherwise).

In order to allow the Issuer (and the Parent, by virtue of the corresponding provision of the Keep Well Agreement) to continue its (their) business activities, any amounts which, but for the provisions of Condition 4(e) *or, as the case may be, the insolvency of the Issuer or the Parent, would be payable as interest or principal on the Undated Subordinated Notes (or the corresponding amounts the Parent is required to make available to the Issuer under the Keep Well Agreement) will be available to meet the losses of the Issuer (or the Parent, as the case may be).*

(d) No Set Off in respect of Subordinated Notes

Subject to applicable law, no holder of a Subordinated Note or a Receipt or Coupon relating thereto (if any) may exercise or claim any right of set-off in respect of any amount owed by it to the Issuer arising under or in connection with the Subordinated Notes and the Receipts and Coupons relating thereto (if any) and each holder of a Subordinated Note or a Receipt or Coupon relating thereto (if any) shall, by virtue of its subscription, purchase or holding of any such Note, Receipt or Coupon, be deemed to have waived all such rights of set-off.

(e) Status and Subordination of the Parent's Obligations under the Keep Well Agreement

(i) Under the terms of the Keep Well Agreement, and subject as described below, the Parent has agreed to cause the Issuer to maintain or will make available to the Issuer, before the due date of any relevant payment obligations under the Notes, funds sufficient to enable the Issuer to satisfy such payment obligations in full as they fall due.

(ii) With regard to the Senior Notes, the obligations of the Parent referred to in sub-paragraph (i) above as undertaken under the Keep Well Agreement constitute unsubordinated, unconditional and unsecured obligations of the Parent.

(iii) With regard to the Dated Subordinated Notes, the obligations of the Parent referred to in sub-paragraph (i) above as undertaken under the Keep Well Agreement are unsecured and will be subordinated to the extent that, in the event of winding up of the Parent, and to the extent permitted by Portuguese law, payment by the Parent under the Keep Well Agreement (insofar as such payment relates to payment obligations of the Issuer in respect of Dated Subordinated Notes) will be conditional upon the Parent being able to satisfy in full the claims of all unsubordinated creditors of the Parent.

(iv) With regard to the Undated Subordinated Notes, the obligations of the Parent referred to in sub-paragraph (i) as undertaken under the Keep Well Agreement above are unsecured and will be subordinated, to the extent permitted by Portuguese law, to the claims of Senior Creditors of the Parent (as defined below) in that payment by the Parent under the Keep Well Agreement (insofar as such payment relates to payment obligations of the Issuer in respect of Undated Subordinated Notes) is conditional upon the Parent being solvent (as defined below) at the time of payment by the Parent to the Issuer pursuant to the provisions of the Keep Well Agreement as set out in sub-paragraph (i) above and in that no such payment shall be made except to the extent that the Parent could make such payment and still be solvent immediately thereafter. For this purpose, the Parent shall be considered to be solvent if both (i) it is able to pay its debts to Senior Creditors of the Parent as they fall due and (ii) its Assets exceed its Liabilities (each as defined below) to Senior Creditors of the Parent.

A report as to the solvency of the Parent by (a) two directors of the Parent or, if the directors have not reported to the Issuer within fourteen days before any payment made pursuant to this sub-paragraph (iv), the auditors of the Parent or (b) if the Parent is being wound up, its liquidator shall, in each case in the absence of manifest error, be treated and accepted by the Issuer, the Parent, the Trustee and the holders of Undated Subordinated Notes as correct and sufficient evidence thereof.

For the purposes of this sub-paragraph (iv):

(A) **Assets** means the total consolidated gross assets of the Parent and **Liabilities** means the total consolidated gross liabilities of the Parent, all as shown by the latest published audited consolidated balance sheet of the Parent but adjusted for contingencies and for subsequent events in such manner and to such extent as such directors, auditors or liquidator, as the case may be, may determine to be appropriate; and

(B) **Senior Creditors of the Parent** means creditors of the Parent who (x) are depositors or other unsubordinated creditors of the Parent or (y) are subordinated creditors of the Parent other than those whose claims rank *pari passu* with or junior to the claims of the Issuer against the Parent under the Keep Well Agreement in respect of Undated Subordinated Notes.

N.B. The obligations of the Parent under the Keep Well Agreement in respect of Undated Subordinated Notes are conditional upon the Parent being solvent immediately before and after payment by the Parent. Any amounts which might otherwise have been allocated in or towards payment by the Issuer of principal and interest in respect of the Undated Subordinated Notes will be available to meet the losses of the Parent.

(v) If, otherwise than for the purposes of a Permitted Reorganisation (as defined in Condition 9) or for the purpose of a reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, an order is made or an effective resolution is passed for the winding up of the Parent, the Parent shall, in lieu of any other payment to the Issuer under the Keep Well Agreement in respect of the Undated Subordinated Notes be obliged to pay, in respect of the Undated Subordinated Notes, such amounts as would have been payable if the Issuer had, on the day preceding the commencement of such winding up, become a holder of preference stock or shares in the capital of the Parent forming or being part of a class having a preferential right in the winding up over the holders of all other classes of stock or shares in the capital of the Parent and entitled to receive in such winding up an amount equal to the full amount payable under the Keep Well Agreement in respect of the Undated Subordinated Notes.

(f) Assignment of the Keep Well Agreement

The Issuer has in the Trust Deed assigned all its rights under the Keep Well Agreement by way of security to the Trustee for the benefit of the Noteholders as security for the payment of principal and interest on the Notes.

3. Negative Pledge

This Condition 3 shall apply only to Senior Notes and references to **Notes** shall be construed accordingly.

So long as any of the Notes remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Parent shall create or permit to be outstanding any mortgage, charge, lien, pledge or other similar encumbrance or security interest other than a security interest arising by operation of law (each a **Security Interest**) upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Indebtedness (as defined below) or to secure any guarantee or indemnity given in respect of any Indebtedness, without, in the case of the creation of such Security Interest, at the same time or promptly according to the Noteholders an equal and rateable interest in the same or providing to the Noteholders such other Security Interest or making such other arrangement (whether or not including the giving of a Security Interest) as the Trustee shall, in its absolute discretion, deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

Indebtedness means any borrowings having an original maturity of more than one year in the form of or represented by bonds, notes, debentures or other securities (not comprising, for the avoidance of doubt preference shares or other equity securities) but excluding any Covered Bonds (as defined below):

(1) more than 50 per cent. in aggregate principal amount of which is initially offered outside the Republic of Ireland (in the case of the Issuer) or the Portuguese Republic (in the case of the Parent); and

(2) which are, or are intended to be, listed or traded on any stock exchange, over-the-counter or other organised market for securities (whether or not initially distributed by way of private placing).

Covered Bonds means any mortgage-backed bonds and/or covered bonds or notes (*Obrigações Hipotecárias*) issued by the Issuer, the obligations of which benefit from a special creditor privilege (*privilégio creditório especial*) as a result of them being collateralised by a defined pool of assets comprised of mortgage loans or other loans permitted by applicable Portuguese legislation to be included in the pool of assets and where the requirements for that collateralisation are regulated by applicable Portuguese legislation.

Nothing in this Condition 3 shall prevent:

(a) the Parent creating or having outstanding a Security Interest on or with respect to the assets or receivables or any part thereof of the Parent which is created pursuant to any securitisation or like arrangement in accordance with normal market practice and whereby the indebtedness secured by such Security Interest or having the benefit of such secured guarantee or indemnity is limited to the value of such assets or receivables; or

(b) in the case of a consolidation or merger of the Parent with or into another company (the **Combining Company**), (A) the Parent having outstanding any Security Interest over assets acquired by it as a result of the consolidation or merger if it is the surviving company or (B) the Combining Company having outstanding any Security Interest over assets owned by it provided that in the case of both (A) and (B), (i) such Security Interest was created by the Combining Company, (ii) such Security Interest was existing at the time of such consolidation or merger, (iii) such Security Interest was not created in contemplation of such consolidation or merger and (iv) the amount secured by such Security Interest is not increased thereafter.

4. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear (subject, in the case of Undated Subordinated Notes, to the provisions of Condition 4*(e)*) on the Interest Payment Date(s) in each year and (except in the case of an Undated Subordinated Note) on the Maturity Date so specified if that does not fall on an Interest Payment Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period ending other than on an Interest Payment Date or if no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Fixed Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

For the purposes of these Terms and Conditions:

Fixed Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 4*(a)*:

(i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the

product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if **30/360** is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) Interest on Floating Rate Notes and Indexed Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Indexed Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear (subject, in the case of Undated Subordinated Notes, to the provisions of Condition 4*(e)*) on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no express Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with any Specified Interest Payment Date(s), an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 4(*b*)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, **Business Day** means a day which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET system is open.

In these Terms and Conditions, **TARGET system** means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Indexed Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or other person specified in the applicable Final Terms were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as amended and updated as at the Issue Date of the first Tranche of the Notes, published by the International Swaps and Derivatives Association, Inc. (the **ISDA Definitions**) and under which:

(1) the Floating Rate Option is as specified in the applicable Final Terms;

(2) the Designated Maturity is a period specified in the applicable Final Terms; and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**) or on the Euro-zone inter-bank offered rate (**EURIBOR**), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rates which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent or other person specified in the applicable Final Terms. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent or other person specified in the applicable Final Terms for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph. Alternatively, provisions dealing with this may be included in the applicable Final Terms.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(C) *Other Determination*

Interest may also be payable from time to time in respect of Floating Rate Notes and Indexed Interest Notes in accordance with such other manner of determination as may be specified in the applicable Final Terms.

(iii) Minimum and/or Maximum Interest Rate

If the applicable Final Terms specifies a Minimum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Interest Rate, the Rate of Interest for such Interest Period shall be such Minimum Interest Rate.

If the applicable Final Terms specifies a Maximum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Interest Rate, the Rate of Interest for such Interest Period shall be such Maximum Interest Rate.

(iv) Determination of Rate of Interest and Calculation of Interest Amounts

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Indexed Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Indexed Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after determining the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Indexed Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall, unless otherwise specified in the applicable Final Terms, be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Day Count Fraction means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if **Actual/365** or **Actual/Actual** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange or other relevant authority on which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 14 as soon as

possible after their determination but in no event later than the fourth London Business Day (as defined below) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of these Terms and Conditions, **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) Determination or calculation by Trustee

If for any reason at any time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above, as the case may be, and, in each case, (iv) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think to the foregoing provisions of this Condition, but subject always to any Minimum or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

(vii) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4*(b)*, whether by the Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up outstanding nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) Undated Subordinated Notes

Interest on Undated Subordinated Notes shall accrue from day to day and shall be payable on each Compulsory Interest Payment Date (as defined below) in respect of the interest accrued in the Interest Period ending on (but excluding) such Compulsory Interest Payment Date. On any Optional Interest Payment Date (as defined below) there may be paid (if the Issuer so elects and gives not less than 30 days' notice of such election to the holders of Undated Subordinated Notes in accordance with Condition 14 the interest accrued in the Interest Period ending on (but excluding) such Optional Interest Payment Date (an **Accrual Period**) but the Issuer shall not have any obligation to make such payment and any failure to pay shall not constitute a default by the Issuer for any purpose; and any interest not so paid shall, so long as the same remains unpaid, constitute **Arrears of Interest**. The

Issuer may at its option (after giving notice to the holders of Undated Subordinated Notes in accordance with Condition 14 at any time pay all or part of the Arrears of Interest (being, if part only, the whole of the interest accrued on all the Undated Subordinated Notes during any one or more Accrual Period(s)) but so that, in the case of any such partial payment, the interest accrued during any Accrual Period shall not be paid prior to that accrued during any earlier Accrual Period. All Arrears of Interest shall become due in full on whichever is the earliest of (i) the date on which any dividend or other distribution is next declared, paid or made on any class of stock or share capital of the Parent, (ii) the date set for any repayment permitted under Condition 6*(b)* or *(c)* and (iii) the commencement of winding up of the Issuer or the Parent. If notice is given by the Issuer of its intention to pay all or part of the Arrears of Interest, the Issuer shall be obliged to do so upon the expiry of such notice. Neither Arrears of Interest nor any interest due but unpaid shall bear interest.

For the purposes of this paragraph *(e)*:

Compulsory Interest Payment Date means any Interest Payment Date in relation to which any dividend or other distribution has been declared, paid or made on any class of the stock or share capital of the Parent in the immediately preceding interest period; and

Optional Interest Payment Date means any Interest Payment Date other than a Compulsory Interest Payment Date.

(f) Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused or is not made by reason of Condition 4*(e)*. In such event, interest will continue to accrue as provided in the Trust Deed.

5. Payments

(a) Method of Payment

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7. References to **Specified Currency** will include any successor currency under applicable law.

(b) Presentation of Definitive Notes, Receipts and Coupons

Payments of principal in respect of Definitive Notes will be made in the manner provided in paragraph *(a)* above only against presentation and surrender of Definitive Notes, and payments of interest, including Arrears of Interest (if any), in respect of Definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of Definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph *(a)* above

against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph *(a)* above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Note to which it appertains. Receipts presented without the Definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Indexed Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Indexed Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any Definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Note.

(c) Payments in respect of Global Notes

Payments of principal and interest (including Arrears of Interest (if any)) in respect of any Global Note will be made in the manner specified above in relation to Definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it is presented and such record shall be *prima facie* evidence that the payment in question has been made.

Unless otherwise specified, the holder of a Global Note (or, as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note. No person other than the holder of such Global Note or the Trustee, as the case may be, shall have any claim against the Issuer in respect of any payments due on such Global Note.

(d) General provisions applicable to payments

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of any Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Note will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(e) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 8) is:

(i) a day on which commercial banks and foreign exchange markets settle payments in:

(A) the relevant place of presentation;

(B) London; and

(C) each Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which, if the Specified Currency is New Zealand dollars, shall be Auckland), or (2) in relation to any sum payable in euro, a day on which the TARGET system is open.

(f) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 7 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Notes redeemable in instalments, the Instalment Amounts;

(vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined below); and

(vii) any premium and any other amounts which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

6. Redemption and Purchase

(a) At Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Senior Note and each Dated Subordinated Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date. Each Undated Subordinated Note is undated and accordingly has no final maturity date and is only redeemable or payable in accordance with the following provisions of this Condition or Condition 10.

(b) Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer (subject to the prior consent of the Bank of Portugal in the case of Subordinated Notes) in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Indexed Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately prior to the giving of such notice that:

(i) on the occasion of the next payment due in respect of the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of Ireland or any political subdivision of, or any authority in, or of, Ireland having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of such conditions precedent in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 6*(b)* will be redeemed at their Early Redemption Amount referred to in paragraph *(e)* below together (if appropriate) with interest accrued to (but excluding) the date of redemption, all Arrears of Interest (if any) and any interest due but unpaid.

(c) Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may (subject to the prior consent of the Bank of Portugal in the case of Subordinated Notes), having given:

(i) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14; and

(ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent and the Trustee;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only (as specified in the applicable Final Terms) of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date, all Arrears of Interest (if any) and any interest

due but unpaid. Any such redemption must be of a nominal amount equal to the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph *(c)* and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least 15 days prior to the Selection Date.

(d) Redemption at the Option of the Noteholders other than holders of Subordinated Notes (Investor Put)

If Investor Put is specified in the applicable Final Terms (provided that Investor Put may not be specified if this is a Subordinated Note), upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 30 nor more than 60 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

In the case of a Definitive Note held outside Euroclear and Clearstream, Luxembourg, to exercise the right to require redemption of such Note the holder of the Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is to be made by cheque, an address) to which payment is to be made under this Condition. If this Note is represented by a Global Note or is a Definitive Note held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Paying Agent for notation accordingly.

(e) Early Redemption Amounts

For the purpose of paragraph *(b)* above and Condition 9 (if this Note is a Senior Note) and Condition 10 (if this Note is a Subordinated Note), the Notes will be redeemed at its Early Redemption Amount calculated as follows:

(i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of Undated Subordinated Notes, at their nominal amount;

(iii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount; or

(iv) in the case of Zero Coupon Notes, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = RP * (1 + AY)*y*

where:.

RP means the Reference Price;.

AY means the Accrual Yield expressed as a decimal; and.

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

(f) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph *(e)* above.

(g) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(h) Purchases

The Issuer, the Parent or any of the Parent's other Subsidiaries (as defined in the Trust Deed) may (subject to the prior consent of the Bank of Portugal in the case of Subordinated Notes) at any time purchase Notes (provided that, in the case of Definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(i) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and all Notes purchased and cancelled pursuant to paragraph *(h)* above (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph *(a)*, *(b)*, *(c)* or *(d)* above or upon its becoming due and repayable as provided in Condition 9 (if this Note is a Senior Note) or Condition 10 (if this Note is a Subordinated Note) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall (subject, in the case of Undated Subordinated Notes, to the provisions of Condition 2*(c)*) be the amount calculated as provided in paragraph *(e)*(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14.

7. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Ireland or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In the event that the Issuer or any person acting on its behalf is required by law to make any such withholding or deduction, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(i) presented for payment in Ireland; or

(ii) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with Ireland other than the mere holding of such Note, Receipt or Coupon; or

(iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on the expiry of such period of 30 days assuming that day to have been a Payment Day (as defined in Condition 5*(e)*); or

(iv) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is or was able to avoid such withholding or deduction by presenting any form or certificate or by making a declaration of non-residence or other claim for exemption; or

(v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(vi) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(vii) where a Note (or such Note to which a Receipt or Coupon relates):

(a) is an unlisted Note; and

(b) is not an Exempted Wholesale Debt Instrument (as defined in the Taxation – Irish taxation section of this Prospectus); and

(c) the beneficial owner of that Note is not either of:

(A) a body corporate resident in an EU Member State or in a territory that has concluded a double taxation treaty with Ireland that is in effect that does not hold the Note in connection with an Irish branch or agency of that body corporate; or

(B) a person entitled to avail of the terms of a double taxation treaty with Ireland that exempts from Irish tax the interest income on the Note for that person and who has performed the required procedures whereby the Issuer has obtained an

authorisation from the Irish Revenue Commissioners to make payments on the Note to that person without deduction of Irish tax and such authorisation applied at the date on which the relevant interest payment was made.

As used herein **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

8. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5*(b)* or any Talon which would be void pursuant to Condition 5*(b)*.

9. Events of Default relating to, and enforcement of, Senior Notes

This Condition 9 shall apply only to Senior Notes and in this Condition 9 references to **Notes** shall be construed accordingly.

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified or secured (whether by payment in advance or otherwise) to its satisfaction), (but, in the case of the happening of any of the events mentioned in paragraphs (ii), (iii) and (vii) to (x) below (inclusive), only if the Trustee shall have certified that, in its opinion, such event is materially prejudicial to the interests of the Noteholders), give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their Early Redemption Amount as defined in Condition 6*(e)*, together with accrued interest as provided in the Trust Deed, if any of the following events (**Events of Default**) shall have occurred and be continuing:

(i) there is default for more than 5 Business Days in the payment of any principal or for more than 10 Business Days in the payment of any interest in respect of the Notes or any of them when and as the same ought to be paid; or

(ii) there is default by the Issuer or the Parent in the performance or observance of any covenant, condition or provision contained in the Trust Deed, the Notes, the Receipts or the Coupons and on its part to be performed or observed (other than the covenant to pay the principal or interest in respect of any of the Notes) and (except where the Trustee determines that such default is not capable of remedy when no such notice or continuation as is hereinafter mentioned shall be required) such default continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer or, as the case may be, the Parent of notice requiring the same to be remedied; or

(iii) a distress or execution or other legal process is levied or enforced or sued out upon or against any part of the property, assets or revenues of the Issuer or, as the case may be, the Parent and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or

(iv) save in the case of a Permitted Reorganisation (as defined below), the Issuer or the Parent becomes insolvent or stops or is unable to, or shall admit inability to, pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or an administrative or other receiver or an examiner (under the Companies (Amendment) Act, 1990 of Ireland) or an administrator or a temporary manager (by the Bank of Portugal) or an encumbrancer or any other similar official shall take possession of it or the whole or any substantial part of its undertaking, property, assets or revenues or takes any

proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors; or

(v) an order is made by a competent court or an effective resolution is passed for the winding up or dissolution of the Issuer or the Parent (except in any case for the purposes of a reconstruction, merger or amalgamation effected with the prior written consent of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders or as a result of a Permitted Reorganisation); or

(vi) the Issuer or the Parent ceases to carry on the whole or substantially the whole of its business (except in any case for the purpose of a reconstruction, merger or amalgamation effected with the prior written consent of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders or as a result of a Permitted Reorganisation); or

(vii) (a) the repayment of any indebtedness owing by the Issuer or by the Parent is accelerated by reason of default and such acceleration has not been rescinded or annulled; or

(b) the Issuer or the Parent defaults (after whichever is the longer of any applicable grace period as originally provided and 14 days after the due date) in any payment of any indebtedness or in the honouring of any guarantee or indemnity in respect of any indebtedness;

Provided however that the aggregate of the principal amounts of all such indebtedness and/or the amounts payable under any such guarantee and/or indemnity and in respect of which any one or more of the events referred to in sub-paragraph *(a)* or *(b)* above shall have occurred shall at that time exceed US$10,000,000 (or its equivalent in any other currency or currencies) or, if higher, a sum equal to one per cent. of the Parent's Shareholders' Funds (as defined below); or

(viii) the Issuer ceases to be a Subsidiary wholly owned and controlled, directly or indirectly, by the Parent; or

(ix) except with the prior consent in writing of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders, the Keep Well Agreement is terminated or any provision of the Keep Well Agreement is modified or waived in circumstances where such modification or waiver would, in the opinion of the Trustee, have a material adverse effect on the interests of the Noteholders or is not enforced in a timely manner by the Issuer or is breached by the Parent; or

(x) save in the case of a Permitted Reorganisation or with the prior written consent of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders or for a sale, transfer, loan or other disposal on an arm's length basis, the Parent sells, transfers, lends or otherwise disposes of (whether by a single transaction or a series of transactions related or not) the whole or, in the opinion of the Trustee, a major part of its undertaking or assets (including shareholdings in its Subsidiaries or associated companies) and such disposal (either alone or when aggregated with all other disposals which fall to be taken into account under this paragraph (x)) is, in the opinion of the Trustee, substantial in relation to the undertakings or assets of the Parent and its Subsidiaries as a whole.

In these Terms and Conditions:

Permitted Reorganisation means an amalgamation, merger, consolidation, reorganisation or other similar arrangement entered into by the Issuer or the Parent with the consent of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders under which:

(a) the whole of the business, undertaking and assets of the Issuer or, as the case may be, the Parent are transferred to and all the liabilities and obligations of the Issuer or, as the case may be, the Parent are assumed by the new or surviving entity resulting from such amalgamation, merger, consolidation, reorganisation or other similar arrangement either:

(i) automatically by operation of the laws of Ireland (in the case of the Issuer) or, as the case may be, the laws of Portugal (in the case of the Parent); or

(ii) upon terms and subject to the satisfaction of such conditions as the Trustee shall have previously approved in writing in order to satisfy the Trustee that the new or surviving entity will be bound by the terms of the Trust Deed and the Notes as fully as if it had been named in the Trust Deed and the Notes in place of the Issuer or, as the case may be, the Parent; and, in either case,

(b) the new or surviving entity will immediately after such amalgamation, merger, consolidation, reorganisation or other similar arrangement be subject to the same regulation and supervision by the Regulatory Authority as the Issuer or, as the case may be, the Parent was subject immediately prior thereto;

Parent Shareholders' Funds means, at any relevant time, a sum equal to the aggregate of the Parent's shareholders' equity as certified by the Auditors (as defined in the Trust Deed) of the Parent by reference to the latest audited consolidated financial statements of the Parent;

Regulatory Authority means the Bank of Portugal in the case of the Parent and the Central Bank of Ireland in the case of the Issuer or their respective successors; and

Business Day means for the purposes of Conditions 9 and 10 a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in both Ireland and Portugal.

The Trustee may, at its discretion and without further notice, take such proceedings against the Issuer and/or the Parent as it may think fit to enforce the obligations of the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons and/or the obligations of the Parent under the Trust Deed and Condition 3 and/or to enforce the security over the Keep Well Agreement, but it shall not be bound to take any such proceedings or any other action unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by holders of at least 25 per cent. in nominal amount of the Notes outstanding and (ii) it shall have been indemnified or secured (whether by payment in advance or otherwise) to its satisfaction. No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer and/or the Parent and/or to enforce the security over the Keep Well Agreement unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure is continuing.

10. Events of Default relating to, and enforcement of, Subordinated Notes

This Condition shall apply only to Subordinated Notes and in this Condition 10 references to **Notes** shall be construed accordingly.

(i) If default is made in the payment of any principal or interest due in respect of any of the Notes and such default continues for a period of 5 Business Days (in the case of principal) or 10 Business Days (in the case of interest) after the due date for the same or, as the case may be, after any other date upon which the payment of interest is compulsory, the Trustee may, subject as provided below, at its discretion and without further notice, institute proceedings for the winding up of the Issuer, but may take no further action in respect of such default. For the purposes of this paragraph and in relation to Undated Subordinated Notes only, for the avoidance of doubt, the exercise by the Issuer of its right, pursuant to Condition 4(*e*), not to make any payment(s) of interest in respect of Undated Subordinated Notes shall not constitute failure to make payment of interest.

(ii) If:

(a) otherwise than for the purposes of a Permitted Reorganisation or for the purposes of a reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, an order is made or an effective resolution is passed for the winding up of the Issuer or the Parent; or

(b) except with the prior consent in writing of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders, the Keep Well Agreement is terminated or any provision of the Keep Well Agreement is modified or waived in circumstances

where such modification or waiver would, in the opinion of the Trustee, have a material adverse effect on the interests of the Noteholders or is not enforced in a timely manner by the Issuer or is breached by the Parent,

the Trustee may, subject as provided below, at its discretion, give notice to the Issuer that the Subordinated Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount as defined in Condition 6*(e)* together with accrued interest as provided in the Trust Deed.

Notwithstanding the Trustee having given notice that the Undated Subordinated Notes are immediately due and repayable, the Issuer may only redeem such Notes with the prior approval of the Bank of Portugal.

There can be no assurance that the Bank of Portugal will give its approval to any such redemption. Noteholders should be aware of the fact that the Bank of Portugal's approval will depend on the capital adequacy of the Parent.

(iii) Without prejudice to paragraphs (i) and (ii) above, the Trustee may, subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer or, as the case may be, the Parent as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Notes, the Receipts, the Coupons or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) and/or the obligations of the Parent under the Trust Deed and/or to enforce its security over the Keep Well Agreement in accordance with the provisions of the Trust Deed, provided that the Issuer or, as the case may be, the Parent shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Notes sooner than the same would otherwise have been payable by it or any damages.

(iv) The Trustee shall be bound to take action as referred to in paragraph (i), (ii) and/or (iii) above only if (a) it shall have been so requested in writing by Noteholders holding not less than 25 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders and (b) it shall have been indemnified or secured (whether by payment in advance or otherwise) to its satisfaction.

(v) No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or, as the case may be, the Parent or to enforce the security over the Keep Well Agreement unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing. No Noteholder, Receiptholder or Couponholder shall be entitled either to institute proceedings for the winding up of the Issuer or, as the case may be, the Parent or to submit a claim in such winding up or to enforce the security over the Keep Well Agreement, except that if the Trustee, having become bound to institute such proceedings or to enforce the security over the Keep Well Agreement as aforesaid, fails to do so or, being able and bound to submit a claim in such winding up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute proceedings for the winding up of the Issuer or, as the case may be, the Parent and/or submit a claim in such winding up and/or enforce the security over the Keep Well Agreement to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

11. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 14 upon payment by the claimant of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. Agent and Paying Agents

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below.

The Issuer and the Parent are entitled with the prior written approval of the Trustee to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Agent) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority;

(ii) there will at all times be a Paying Agent with a specified office in a city approved by the Trustee in continental Europe outside Ireland;

(iii) there will at all times be an Agent; and

(iv) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union (other than Ireland) that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer and the Parent shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 5*(d)*. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

13. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

14. Notices

All notices regarding the Notes shall be published (i) in a leading English language daily newspaper of general circulation in London and (ii) (in respect of any Notes listed on the Irish Stock Exchange (so long as that exchange requires)) in an English language daily newspaper published and circulating nationally in Ireland. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and *The Irish Times* in Dublin. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they are admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in each such newspaper or where published in such newspapers on different dates, the last date of such first publication.

Until such time as any Definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange or admitted to trading by another relevant authority, such stock exchange or other relevant authority permits), so long as the Global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes is represented by a Global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including modification by an Extraordinary Resolution of the Noteholders of any of these Terms and Conditions or any of the provisions of the Notes, the Receipts, the Coupons or the Trust Deed, provided that the modification of certain of these Terms and Conditions and certain of the provisions of the Notes, the Receipts, the Coupons or the Trust Deed (concerning *inter alia* the date of maturity of the Notes or any date for payment of interest thereon, the amount of principal or the rate of interest payable in respect of the Notes, the currency of payment of the Notes, Receipts or Coupons or the status and, if applicable, subordination of the Notes or certain provisions of the Trust Deed) may only be made at a meeting at which the necessary quorum will be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether present or not, and on all Receiptholders and Couponholders.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification, or to any waiver or authorisation of any breach or proposed breach, of any of these Terms and Conditions or any provision of the Trust Deed or the Notes, Receipts or Coupons or determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders shall not be treated as such. The Trustee may also agree without such consent to any modification of any of these Terms and Conditions or any provision of the Trust Deed or the Notes, Receipts or Coupons which, in the opinion of the Trustee, is made to correct a manifest error or which is of a formal, minor or technical nature.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver or authorisation), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders and Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

Any such modification, waiver or authorisation shall be binding on the Noteholders, Receiptholders and Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. Indemnification

The Trust Deed contains provisions governing the responsibility of the Trustee and providing for its indemnification in certain circumstances including provisions relieving it, unless indemnified or secured (whether by payment in advance or otherwise) to its satisfaction, from taking proceedings to enforce repayment. The Trustee shall be entitled to enter into business transactions with the Issuer and/or the Parent and/or any Subsidiary of either of them without accounting for any profit resulting therefrom.

18. Disapplication of Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

19. Governing Law and Submission to Jurisdiction

The Trust Deed, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law except that Conditions 2*(b)* and 2*(c)* and the equivalent provisions of the Trust Deed are governed by, and shall be construed in accordance with, the laws of Ireland.

Each of the Issuer and the Parent has in the Trust Deed irrevocably agreed for the benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as **Proceedings**) may be brought in such courts.

Each of the Issuer and the Parent has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise any objection which it may have now or hereafter to the laying of the venue of any Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer or the Parent in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

Each of the Issuer and the Parent has in the Trust Deed appointed Banco Espirito Santo, S.A., London Branch to accept service of process in England in connection with any Proceedings, and has undertaken that, in the event of Banco Espirito Santo, S.A., London Branch ceasing so to act, it will appoint such other person as the Trustee may approve as its agent for that purpose.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer in the ordinary course of its business which includes making a profit. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the capitalisation and indebtedness of Espirito Santo Investment p.l.c. extracted from the audited financial statements as at 31 December 2004 and 31 December 2005. The figures as at 31 July 2006 are extracted from interim unaudited figures.

	31 July 2006[14]	31 December 2005[14]	31 December 2004[13]
Shareholders' Equity[1]	*Euro*	*Euro*	*Euro*
Ordinary shares, issued and paid up	825,000	825,000	825,000
Profit and loss account	20,272,583	5,853,760	1,520,293
Adjusted reserves following implementation of IFRS as at 1 January 2005	(979,619)[2]	(979,619)[2]	
Movement in adjusted reserves from 1 January 2005	(31,653)[4]	876,651[3]	
Other reserves[5]	100,000,000	100,000,000	100,000,000
Total Shareholders' Funds	120,086,311	106,575,792	102,345,293
Long Term Debt			
Medium term notes[6]	557,196,617	348,934,790	148,403,973
Short Term Debt			
Money market loans from parent bank[7]	178,464,999	66,431,976	227,041,915
Medium term notes[6]	179,653,619	346,233,772	25,879,295
	358,118,618	412,665,748	252,921,210
Total Capitalisation	1,035,401,546	868,176,330	503,670,476

Notes

1. Authorised share capital of the Issuer is Eur 375,000,000 divided into 75,000,000 ordinary shares of Eur 5 each. The issued share capital is 165,000 ordinary shares of Eur 5 each.
2. IFRS balance of Eur 979,619 is the result of two adjustments: (i) the reversal from the profit & loss account of participation fee income totalling Eur 931,403 received in 2004, whereby these reversed participation fees are amortised back to the profit & loss account over the life of the respective credit facility; and (ii) the reclassification of the 2004 hedging derivative positions to trading positions, resulting in a net derivative adjustment as at 1 January 2005 of Eur 48,216.
3. IFRS balance of Eur 876,651 is the cumulative result of: (i) fluctuations of Eur 275,970 on trading derivative positions; and (ii) Cumulative Fair value gains of Eur 600,681 on Available for sale investments, both to 31 December 2005.
4. IFRS balance of Eur (31,653) is the cumulative result of: (i) fluctuations of Eur (281,041) on trading derivative positions; and (ii) Cumulative Fair value gains of Eur 312,694 on Available for sale investments, both to 31 July 2006.
5. Other reserves comprise capital contributions received from Banco Espirito Santo de Investimento, SA (formerly Banco Essi, SA) which are distributable;
6. The Notes issued under the €1,500,000,000 EMTN Programme are unsecured and unguaranteed;
7. Money market loans are unsecured and unguaranteed; and
8. As at 31 July 2006, Espirito Santo Investment p.l.c. had no contingent liabilities or guarantees.
9. Exchange rates:

   31 December 2004: euro 1.00 = USD 1.3621
   31 December 2005: euro 1.00 = USD 1.1797
   31 July 2006: euro 1.00 = USD 1.2767

   (Source: Fixing of *Banco de Portugal*).
10. The Issuer declares that it has never had created and unissued loan capital nor any contingent liabilities. The Issuer also states that as at 31 December 2004, 31 December 2005 and as at 31 July 2006 there were neither liabilities with related counter-parties, nor borrowings and indebtedness, with the exception of an overdraft in December 2005, other than those described in the above Capitalisation table.
11. Net profit after tax for distribution as at 31 July 2006 was Eur 20,272,583. Total Shareholders funds including profit and adjusted for IFRS for distribution as at 31 July 2006 is Eur 120,086,311. Total shareholder funds figures for December 2004 and 2005 are net of profit distribution.
12. There has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of Espirito Santo Investment p.l.c. since 31 July 2006.
13. 2004 figures were prepared under Irish GAAP.
14. December 2005 and interim July 2006 figures are stated under International Financial Reporting Standards (**IFRS**), which were applied since 1 January 2005 and are outlined on pages 62 to 68.

DESCRIPTION OF THE ISSUER

Business

The Issuer was incorporated under the Irish Companies Acts, 1963 to 1990 (the **Acts**) on 22 August 1996 as a private limited liability company under the name Essi Ireland Limited. It was re-registered as a public limited company (having limited liability) on 9 October 1998 and changed is name to Espirito Santo Investment p.l.c. with effect from 9 October 1998. The Issuer is a wholly owned subsidiary of Banco Espirito Santo de Investimento, S.A. The Issuer's registered office is at 2 Harbourmaster Place, Custom House Dock, Dublin 1 and its business address is at 4th Floor, Spencer House, 71-73 Talbot Street, Dublin 1, Ireland, telephone number +353 1 859 0699/813 4370. Its registered number is 253333. The Issuer complies with the current corporate governance regime of Ireland.

The Issuer has no subsidiaries. The Issuer's objects empower it to conduct a wide range of financial activities. The Issuer's principal objects are set forth in clause 3 of its Memorandum of Association. The Issuer was granted a certificate by the Minister for Finance of Ireland under section 446 of the Taxes Consolidation Act, 1997 in respect of certain specified relevant trading operations carried on by it in Dublin's International Financial Services Centre. This certificate expired on 31 December 2005. Income generated by the Issuer from trading operations qualifies for a rate of corporation tax of 12.5 per cent since 1 January 2006.

The authorised share capital of the Issuer was IR£30,000 and PTE75,000,000,000 comprising 30,000 ordinary shares having a nominal value of IR£1 each and 750,000,000 ordinary shares having a nominal value of PTE100 each. This authorised share capital was amended by a Board resolution on 14 February 2001 to EUR 375,000,000 divided into 75,000,000 ordinary shares of EUR 5.00 each. The issued share capital of the Issuer is now EUR 825,000 comprising 165,000 ordinary shares having a nominal value of EUR 5.00 each.

The Issuer's primary activities are the granting of credit facilities to corporate entities, the trading of securities for its own account and the entering into derivative transactions to hedge the risks derived from the preceding activities. The Issuer does not perform advisory services, does not act in primary markets and does not perform any distribution of securities.

Directors

The Directors of the Issuer and their principal activities are as follows:

Name	Position with the Issuer	Other Principal Activity
Tom Murray	Director	Business Development Manager with Merrion Capital
Carlos Nogueira	Director	Vice-President and Head of Treasury of Banco Espirito Santo de Investimento, S.A.
Tiago Cyrne de Castro	Director	Board member of Banco Espirito Santo de Investimento, S.A.
Nuno Pignatelli Pereira	Director	Chief Compliance Officer with Banco Espírito Santo de Investimento, S.A.
John Madigan	Director	General Manager and Managing Director of the Issuer.

Michael Griffin resigned as a Director on 7 February 2006. The Issuer's Board appointed John Madigan as Director in his place. The business address of Tom Murray is Block C, The Sweepstakes Centre, Ballsbridge, Dublin 4, Ireland. The business address of John Madigan is Fourth Floor, Spencer House, 71-73 Talbot Street, Dublin 1, Ireland.

The business address of Carlos Nogueira, Tiago Cyrne de Castro and Nuno Pignatelli Pereira is at the offices of Banco Espirito Santo de Investimento, S.A., Edificio Quartzo, Rua Alexandre Herculano, 38, 1269-161, Lisboa, Portugal.

The Issuer is not aware of any potential conflict of interest between the duties of each of the members of its Board of Directors and his/her private interests or other duties.

FINANCIAL STATEMENTS OF THE ISSUER

ACCOUNTING POLICIES (UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS)

The following information outlines the proposed accounting polices to be implemented under International Financial Reporting Standards (**IFRS**).

Basis of Preparation

For all periods up to and including the year ended 31 December 2004, the Company prepared its financial statements in accordance with Irish Generally Accepted Accounting Principles (**G.A.A.P**). In accordance with Regulation (EC) no. 1606/2002 issued 19 July 2002, Banco Espírito Santo, S.A. (**BES**), Parent of Banco Espírito Santo de Investimento S.A (**BESI** hereinafter referred to as the **Parent**) and ultimate owner of the Company, is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (**IFRS**) as endorsed by the EU, to be effective for reporting for the year ending 31 December 2005. Therefore, from 1 January 2005 the consolidated financial statements of BES and financial statements of all group related companies, including the Company, will be prepared in accordance with IFRS.

IFRS comprise accounting standards issued by the International Accounting Standards Board (**IASB**) and its outgoing governing body, as well as interpretations issued by the International Financial Reporting Interpretations Committee (**IFRIC**) and its predecessor.

Transition to IFRS

In preparing the financial statements for the twelve month period ending 31 December 2005 and in determining the IFRS transition adjustments, the Company elected to apply certain transition provisions within IFRS 1 – First-time Adoption of International Financial Reporting Standards, namely the exemptions on comparative financial information and on the retrospective application of IFRS.

In accordance with paragraph 36A of IFRS 1, the most significant of these provisions is the exemption from presenting comparative information in accordance with IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement. Therefore, comparative figures for 2004 include the financial instruments recognized and measured in accordance with the previous accounting policies of the Company. This exempted the Company from restating the value of all hedging derivative positions to the retrospective fair value as at the relevant comparative date. This exemption also meant the Company being exempt from reclassifying securities held at the relevant comparative date to the respective IFRS classifications of 'Held to maturity investments', 'Available for sale investments' and 'Financial Assets held for trading'. In addition, this also exempted the Company from presenting comparative information in respect of participation fee income and the subsequent retrospective allocation of such fees to the income statement.

Foreign Currency Transactions

The financial statements of the Company are prepared using the functional currency, which is defined as the currency of the primary economic environment in which that entity operates. In the case of the Company, the functional currency is the Euro.

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 euros 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.

Derivative Financial Instruments and Hedge Accounting

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.

Fair values for trading derivatives 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. In the rare cases when it is not possible to estimate with reliability the fair value, the instruments are recognized at acquisition cost.

Hedge Accounting

- *Classification criteria*

Hedge accounting is used for derivative financial instruments designated as a hedging instrument, 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 hedge 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 on-going basis;

iii) The effectiveness of the hedge can be readily measured, both at the inception of the hedge and on an on-going basis.

- *Fair value hedge*

In a fair value hedge, the book value of the hedged asset or liability is adjusted to reflect the changes in its fair value attributable to the risks being hedged and risks associated with the respective asset or liability. Changes in the fair value of the derivatives that are designated as hedging instruments attributed to the medium term notes are recorded in the income statement, together with any changes in the fair value of the respective 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 fair value hedge accounting is discontinued. The cumulative adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

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 the income statement. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. As the host contract for all Medium Term Notes is carried at fair value all respective embedded derivatives are accounted for as trading derivatives.

Until 31 December 2004

Until 31 December 2004 the accounting for derivative financial instruments was dependent upon whether they were contracted for trading or hedging purposes.

Derivative financial instruments were classified as hedging instruments if they complied, cumulatively, with the following conditions:

- the position to be hedged was clearly identified and exposed the Company to the risk of losses arising from potential changes in interest rates, prices and credit risk that certain assets, liabilities, off-balance sheet items and cash-flows might be exposed to;
- were specifically classified as hedging in the Company's internal documentation;

- changes in value in the derivative financial instrument were correlated with changes in opposite direction in the position to be hedged, such that the hedging instrument was efficient, eliminating or reducing considerably the risk of a loss in the hedged position, from the beginning of the contract until its maturity.

There were no specific requirements to demonstrate the effectiveness of the hedging relationship neither retrospectively nor prospectively.

Derivative financial instruments that did not comply with the above-mentioned conditions were accounted for as trading positions. Hedging derivatives were accounted for in off balance sheet accounts at their notional amounts until maturity and interest and premiums were recorded on an accruals basis. Results obtained from hedging contracts were accounted for in accordance with the same principle with results recorded in the opposite value to the hedged items. Trading derivatives were marked to market with changes recognised in the profit and loss account.

If a derivative instrument classified as hedging was sold, settled before its maturity or was transferred to the trading portfolio, the respective gain or loss was immediately recognised in the income statement. If the hedged item was sold, or the hedge ceased to be effective, the corresponding derivative instrument was immediately reclassified as a trading instrument.

There were no specific requirements for embedded derivatives.

Loans and Advances to Customers

Loans and advances to customers include loans and advances which are not intended to be sold or matured 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 the contractual rights to receive the cash flows associated with the respective loan expires or the Parent substantially transfers all risks and rewards of ownership. 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 method, less impairment losses.

Impairment

Assessment is made at each balance sheet date of whether there is objective evidence of impairment within the 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 decrease.

A loan 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.

An assessment is made of whether objective evidence of impairment exists individually for each loan. In this assessment the information that feeds the credit risk models implemented takes into consideration the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the viability of the customer's business model and capability to trade successfully and to generate sufficient cash flow to service their debt obligations;
- the extent of other creditors' commitments ranking ahead of the Group;
- the existence, nature and estimated realisable value of collaterals;
- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

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. 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.

When a loan is considered uncollectible and an impairment loss of 100 per cent is recognised, it is written off against the related allowance for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the loan impairment loss recognised in the income statement. In such cases, the borrowers ability to repay its outstanding obligations to the Issuer is ascertained and the relevant impairment loss is subsequently calculated.

Other Financial Assets

Classification

Other financial assets are classified 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 and (ii) financial assets that are designated at fair value through profit or loss at inception.

- Available-for-sale investments

  Available-for-sale investments 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 De-recognition

Purchases and sales of financial assets at fair value through profit or loss and of held to maturity and available-for-sale investments are recognised on trade-date – the date on which the Company 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 the rights to receive cash flows from the financial assets have expired or the Company has substantially transferred all risks and rewards of ownership.

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 Reserves, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in Reserves is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in Reserves, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities fair values are established 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. Financial instruments whose fair value cannot be reliably measured are carried at cost.

Reclassifications between Categories

In accordance with IAS 39, after initial recognition, a financial instrument is not reclassified into or out of the fair value through profit or loss category.

Impairment of financial assets.

Periodic assessment confirms 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 recognized 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 listed securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for unlisted 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.

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, except in relation to equity instruments, in which case the reversal is recognised in equity.

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-derivative financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales. These financial liabilities are recognized (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest method, except for short sales which are measured at fair value.

If the Company repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

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.

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. Consideration 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.

Property, plant and equipment

Property, plant and equipment are stated at book value less depreciation and impairment losses, which was considered as the deemed cost as determined at the transition date to IFRS in accordance with IFRS 1.

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 Company. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of Years
Computer equipment	4 to 5
Other equipment	5

These assets are reviewed for impairment whenever events or circumstances indicate that their carrying amount exceeds the respective recoverable amount, in which case the difference is recognised in the income statement. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Leases

Lease agreements are classified 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

The Company did not engage in any finance leases during the year. However it is in the process of engaging in an operating lease in respect of the premises located at Fourth Floor Spencer House, 71-73 Talbot Street, Dublin 1. Payments made under operating leases are charged to the income statement in the period to which they relate.

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 reserves, in which case it is recognised in reserves. Deferred tax recognised directly in reserves relating to fair value re-measurement of available-for-sale investments is subsequently recognised in the income statement when gains or losses giving rise to the deferred 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 substantially enacted at the balance sheet date.

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 substantially enacted at the balance sheet date 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 generally recognised for all taxable temporary differences and 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 utilised.

Interest Income and Expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows 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.

When calculating the effective interest rate, cash flows considering all contractual terms of the financial instrument are estimated (for example, prepayment options) but do not consider future credit

losses. The calculation includes all fees and cash flows paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and Commission Income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication and participation fees, are recognised as income when the significant act has been completed. In the case of participation fees earned upon entering into a syndicate or stand-alone credit facility, the fees are recorded in the balance sheet as deferred income and amortised to the profit and loss over the life of the credit facility;
- Fees and commissions earned as services 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 method.

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 balance sheet date, including cash and deposits with banks. Cash and cash equivalents exclude restricted balances with central banks.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) for financial statements. These are the Company's first IFRS financial statements and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRS has affected the reported financial position of the Company is provided in note 11. This note includes reconciliations of equity for the preceding financial year reported under Irish GAAP (previous GAAP) to the current period reported under IFRS.

STATEMENT OF INCOME

Year Ended 31 December 2004 and 31 December 2005

The following information is extracted without material adjustment from the audited annual accounts of the Issuer as at 31 December 2004 and 31 December 2005.

	December 2005[2]	December 2004[1]
	Euro	*Euro*
Interest income	23,139,972	20,858,406
Interest expenses	16,572,781	13,122,022
Net interest income	6,567,191	7,736,384
Income from equities held	173,595	—
Fees and commissions	11,846,104	5,564,947
Net results from assets and liabilities held for trading	2,844,423	3,293,970
Net results from financial assets available-for-sale	106,885	2,525,920
Results from Foreign Exchange revaluation	530,670	(373,290)
Operational Income	22,068,868	18,747,931
Staff costs	343,693	273,694
Operating expenses	474,563	556,053
Depreciation	2,553	2,784
Operational costs	820,809	832,531
Operating profit on ordinary activities before taxes	21,248,059	17,915,400
Taxation		
Current tax	2,134,957	1,791,635
Net profit for the financial year	19,113,102	16,123,765
Attributable to the equity shareholders	19,113,102	16,123,765

Profit on ordinary activities arose solely from continuing activities.

Notes

1. Audited and published figures restated under International Financial Reporting Standards (IFRS).
2. Audited and published figures prepared under International Financial Reporting Standards (IFRS).

BALANCE SHEET

As at 31 December 2004 and 31 December 2005

The following information is extracted without material adjustment from the audited annual accounts of the Issuer as at 31 December 2004 and 31 December 2005.

	December 2005[2]	December 2004[1]
	Euro	*Euro*
Non current assets		
Property, plant and equipment[3]	9,165	7,913
Total non current assets	9,165	7,913
Current assets		
Cash and cash equivalents	2,680	368,842
Trade and other receivables	2,159,982	2,012,110
Financial assets held for trading[5]	115,737,429	22,759,802
Financial assets Available-for-sale[4]	203,062,486	151,573,754
Loans and advances to credit institutions	198,106,606	80,000,000
Loans and advances to third parties	445,280,253	245,732,795
Derivatives at fair value	19,490,078	—
Other assets	5,359,968	5,784,242
Total current assets	989,199,482	508,231,545
Total Assets	989,208,647	508,239,458
Equity		
Issued capital	825,000	825,000
Capital contribution	100,000,000	100,000,000
Other reserves	876,651	—
Retained earnings	4,874,141	1,520,293
Total Equity	106,575,792	102,345,293
Non current liabilities		
Debt securities	346,233,772	25,879,295
Total non current liabilities	346,233,772	25,879,295
Current liabilities		
Bank overdraft	445,952	—
Amounts owed to credit institutions	66,431,976	227,041,915
Debt securities	348,934,790	148,403,973
Financial assets held for trading	96,203,110	106,438
Derivatives at Fair Value	13,677,200	—
Current taxes	735,267	835,685
Other liabilities	9,970,788	3,626,859
Total current liabilities	536,399,083	380,014,870
Total liabilities	882,632,855	405,894,165
Total liabilities and Equity	989,208,647	508,239,458

Notes

1. Audited and published figures restated under International Financial Reporting Standards (IFRS).
2. Audited and published figures prepared under IFRS
3. With effect from 1 January 2005 Tangible fixed assets are reclassified under IFRS as Property, plant and equipment.
4. With effect from 1 January 2005 Investment securities are reclassified under IFRS as Available for sale investments (AFS).
5. With effect from 1 January 2005 Marketable securities are reclassified under IFRS as Financial Assets held for trading.
6. In preparing the financial statements for the period ending 31 December 2004 and in determining the IFRS transition adjustments, under paragraph 36A of IFRS 1 '*Exemption from the requirement to restate comparative information under IAS 39 and IFRS 4*', the Issuer elected to apply certain transition provisions within IFRS 1 – First-time Adoption of International Financial Reporting Standards, namely the exemptions on comparative financial information and on the retrospective application of IFRS. The most significant of these provisions is the exemption from presenting comparative information in accordance with IAS 32 – *Financial Instruments: Disclosure and Presentation* and IAS 39 – *Financial Instruments: Recognition and Measurement*. Therefore, comparative figures for 2004 include the financial instruments recognised and measured in accordance with Irish GAAP. Had the Issuer not availed of the exemption under IFRS 1 and applied IAS 32 and 39, the principal change would have been a reduction in realised profit for the respective comparative period, following the recognition of Participation fee income on the balance sheet and the subsequent amortisation of such income over the life the respective credit facility. This is a deviation from Irish GAAP whereby such Participation fees were previously taken directly to the profit & loss account.
7. Other relevant adjustments under IAS 39 concern the revaluation of Available for Sale investments to the revaluation reserve on the balance sheet. Previously, under Irish GAAP all revaluations of Investment securities using fair market values were taken to the profit & loss account.
8. Following the implementation IFRS on 1 January 2005, the classification of securities was revised to comply with the new accounting standards. Securities formerly classified under the Investment portfolio have been re-classified to Available for Sale. Marketable securities are renamed as Financial assets held for trading.

9 From 31 December 2005 to 31 August 2006 Available for Sale investments (formerly Investment securities) increased by euro 54.7 million. In the same period financial assets held for trading (formerly Marketable securities) increased by euro 9.8 million.

10. From 31 December 2005 to 31 August 2006 total Debtors increased by euro 8.9 million. The primary driver for this movement was a significant increase in the amount of accrued interest income, specifically on credit facilities. Additionally we have not yet paid a dividend in 2006 with an amount of 4 million outstanding.
11. From 31 December 2005 to 31 August 2006 loans increased by euro 155.7 million. This is the result of an increase in loans of 83.7 million a considerable amount of which were issued specifically to Spanish corporations. Money market loans to the parent increased by 38 million and loans to group customers rose by 34 million.
12. From 31 December 2005 to 31 August 2006 creditors increased by euro 218 million. This figure is the result of an increase in Medium Term Notes issued under the Euro 1.5 Billion MTN programme which rose by 107 million in the period. Money market loans from the Parent also increased significantly in the period.

STATEMENT OF CASH FLOWS

Year Ended 31 December 2004 and 31 December 2005

	December 2005	December 2004
	Euro	*Euro*
Cash flows from operating activities		
Profit for the year	19,113,102	16,123,765
Adjustments for:		
Depreciation	2,553	2,784
Change in value of gain and/or loss on sale of investments	5,828,252	(553,278)
Interest and investment income	(23,139,972)	(20,858,406)
Interest expense	16,572,781	12,514,056
Income tax expense	2,134,957	1,791,635
Operating Profit before changes in working capital and provisions	20,511,673	9,020,556
Decrease in trade and other receivables	86,454	38,463
Increase/(decrease) in trade and other payables	2,841,287	(15,054)
Cash generated from operations	2,927,741	23,409
Interest (paid)	(13,070,139)	(12,254,503)
Income taxes refunded/(paid)	(2,235,375)	(1,964,524)
Net cash from operating activities	8,133,900	(5,175,062)
Cash flows from investing activities		
Net proceeds from sale & maturity of investments	(59,331,155)	(34,283,501)
Interest received	22,546,389	22,359,897
(Acquisition)/disposal of property & equipment	(3,798)	(9,006)
(Acquisition)/disposal of other investments	(317,654,066)	(60,998,264)
Net cash from investing activities	(354,442,632)	(72,930,874)
Cash flows from financing activities		
Increase in/(repayment of) debt securities	520,885,294	(81,311,948)
Increase in/(repayment of) in money markets from parent	(160,609,041)	175,269,694
Dividends paid	(14,779,635)	(16,493,380)
Net cash from financing activities	345,496,618	77,464,366
Net increase in cash and cash equivalents	(812,114)	(641,570)
Cash and cash equivalents at 1 January 2005/2004	368,842	1,010,412
Cash and cash equivalents at 31 December 2005/2004	(443,272)	368,842

CAPITALISATION AND INDEBTEDNESS OF THE PARENT

The following table sets out the capitalisation and indebtedness of Banco Espírito Santo de Investimento, S.A. and its subsidiaries as extracted without material adjustment from the audited consolidated accounts as at 31 December 2005 and 31 December 2004 (in millions of euro) prepared in accordance with the general accepted accounting principles in Portugal for the banking sector.

Description	**2005**	**2004**
	Euro millions	*Euro millions*
Shareholders' Equity		
Share Capital (14,000,000 ordinary shares of euro 5 par value each authorised, issued and fully paid)	70.0	70.0
Retained Earnings and Reserves	81.4	81.0
Net Income	50.0	42.81
Share Premium	8.8	8.8
Total Shareholders' Equity	210.2	202.6
Minority Interests	39.5	4.1
Long-Term Debt		
Deposits	61.8	92.0
Bonds payable	319.2	162.5
Borrowings	129.2	993.9
Subordinated Debt – Corporate Bonds	99.3	57.0
Total Long Term Debt	609.5	1,305.4
Short-Term Debt		
Deposits	339.3	601.5
Bonds payable	346.8	30.6
Borrowings	1,285.0	14.6
Total Short Term Debt	1,971.1	646.7
Total Capitalisation and Indebtedness	2,580.6	1,952.1

Notes

(1) In accordance with the decision of the shareholders' meeting on 31 March 2006, the application of a portion of the Parent's 2005 earnings, amounting to euro 67,546,381.82, was as follows: (i) transfer to legal reserves – euro 6,754,638.18 and (ii) for dividend distribution – euro 42,634,948.63 (iii) transfer to other reserves – euro 38,156,795.01.

(2) As at 31 December 2004, all deposits, borrowings, bonds payable and subordinated debt – corporate bonds were unsecured and unguaranteed. As at 31 December 2004, the amounts classified above as borrowings were primarily amounts owed to credit institutions and clients.

DESCRIPTION OF THE PARENT

Banco Espirito Santo de Investimento, S.A. (**BES INV** or the **Parent** or the **Bank**) is the investment banking arm of the Espirito Santo Financial Group (the **Group**), an integrated financial services group which engages in a wide range of banking and insurance activities through its subsidiaries which are primarily located in Portugal. BES INV was incorporated in Portugal in 1983 as a company limited by shares and is registered with the Commercial Registry Office of Lisbon under number 501.385.932. The Parent's objects empower it to conduct a wide range of financial activities. The Parent's principal objects are set forth in clause 2 of its Memorandum of Association.

BES INV was originally incorporated under the name Finc – Sociedade Portuguesa Promotora de Investimentos, S.A.R.L. and in 1986 it was integrated into the Group under the name Espirito Santo – Sociedade de Investimentos, S.A. In April 1993, the corporate object was altered and its name was also changed to Banco ESSI, S.A. These changes gave BES INV the ability to participate in new business areas and to make use of new sources of financial resources. BES INV further changed its name to Banco Espirito Santo de Investimento, S.A. on 1 July 1998. As a member of the Group, and the only one operating in investment banking, BES INV benefited from the existing synergies, *inter alia*, in the contacts with clients, good reputation of the Group in the financial markets, sharing of know-how and capacity to negotiate due to the fact that it is a member of a major financial group.

As at 31 August 2006, Banco Espirito Santo, S.A. held a 100 per cent. voting interest in BES INV. This was the result of the bid offer to buy one hundred per cent. of BES INV launched by Banco Espirito Santo, S.A. in January, 2000.

BES INV is organised on a matrix basis with three lines of products, namely, Equity, Debt and Corporate Finance, which are promoted by a clientele relationship department which is composed of senior bankers organised by economic sectors.

BES INV's primary investment banking and advisory activities are in project finance, corporate restructurings, privatisation work, primary and secondary market securities trading, brokerage and underwriting and distribution of equity and debt issues mainly in the Portuguese capital markets. BES INV is formally divided into separately managed departments each with responsibility for the development of the various business activities of BES INV.

In February 2003 BES INV commenced operations in its London Branch, specializing in the provision of Project Finance consultancy services in the UK and abroad.

As at 1 June 2006 BES INV's Spain Branch started operations following completion of the merger by way of integration of the Spanish broker-dealer company Espírito Santo Investment, S.A.U., S.V. (**ESI SV**) into BES INV and the allocation of ESI SV assets and liabilities to the newly registered branch. ESI SV was a wholly owned subsidiary of BES INV and its corporate objective involved the transmission of orders to subscribe to and trade in any securities, the management and transmission of holdings in investment funds, brokerage in the placement of security issues, domestic (Spain) trading of foreign securities with the public on behalf of third parties, the management of portfolios on behalf of third parties and acting within prevailing regulations as Manager of the Dematerialised Public Debt Market. BES INV's Spain Branch carries out, on a local basis, all investment banking activities BES INV is authorised for, in addition to the brokerage activities that were already performed by ESI SV. BES INV's Spain Branch is a trading member for the Spanish Securities Derivatives Market (MEFF), the German Equity Derivatives EUREX and the Spanish cash markets of Madrid, Barcelona and Valencia.

BES INV holds interests in subsidiaries which were acquired with a view to intervening in the relevant management, either to further connections between them or as a way to complement its own activity.

In August 2006, the main subsidiaries of BES INV were the following:

Espirito Santo Investment p.l.c., the Issuer;

ESSI Comunicações, SGPS, S.A.

This company is registered in Portugal with a registered share capital of EUR 50,000. The object of the company is the management of other companies as an indirect form of conducting economic activity. The company owns 94.6% of ESSI, Sociedade Gestora de Participações Sociais, S.A. It is a wholly owned subsidiary of BES INV.

ESSI Investimentos, SGPS, S.A.

Registered in Portugal with a registered share capital of EUR 1,050,000, the object of the company is the management of other companies as an indirect form of conducting economic activity. The Company also has small holdings in several companies. It is a wholly owned subsidiary of BES INV.

ESSI, Sociedade Gestora de Participações Sociais, S.A. (ESSI SGPS)

Registered in Portugal with a registered share capital of EUR 45,763,300, the object of the company is the management of holdings in credit and financial institutions as an indirect form of conducting economic activity. During 2000 the company altered the denomination of its share capital and of the shares representing it to euros and increased its share capital by EUR 43,269,311. The sole shareholder is ESSI Comunicações, SGPS, SA with 94.55%, and the remaining 5.45% became own shares held by ESSI SGPS, with no voting rights, following the acquisition of the same from BES INV in December 2003.

Espirito Santo de Investimentos, S.A.

Registered in Brazil with a registered share capital of Reais 7,122,150, the corporate objective of the company is the provision of economic, financial, administrative, and corporate advisory and consultancy specialised services, business mediation and commercial representation and the participation in other companies, both civil and commercial, as a shareholder or as a partner, as well as the participation in joint ventures and partnerships with one publicised partner and one undisclosed partner. Espírito Santo de Investimentos, S.A. is 100% owned by ESSI SGPS. During September and October 2000, the company acquired 50% of an investment bank and 50% of a broker in Brazil, BES Investimento do Brasil, S.A., – Banco de Investimento (**BESI Brazil**) and BES Securities do Brasil, S.A. – CCVM (**BES Securities Brazil**). Both holdings were increased to 80% in November 2001, and in December 2001 BESI Brazil increased its share capital from Reais 20,000,000 to Reais 46,467,758 and acquired 100% of BES Securities Brazil. In May 2004, BESI Brazil acquired 100% of C.J.S.P.E. – Empreendimentos e Participações, Ltda and renamed it BESAF – BES Activos Financeiros, Lda (**BESAF**). With a share capital of Reais 3,000,000, BESAF commenced operations as the Group's Brazilian securities funds management company. With a view to expanding the fund management activities in Brazil, Espírito Santo de Investimentos, S.A. acquired a new company in April 2005, re-registered as Morumbi Capital, S.A., with a share capital of Reais 1,000,000. Morumbi Capital, S.A. secures the management of hedge funds, for which purpose authorisation was granted by the Brazilian Securities Market Commission (*Comissão de Valores Mobiliários*) in July 2005.

Espírito Santo Capital – Sociedade de Capital de Risco, S.A. (ES Private Equity)

Registered in Portugal with a registered share capital of EUR 25,000,000, the company's purpose is the taking of non strategic financial holdings in unlisted companies with a view to realising gains with the sale of such shareholdings. ES Private Equity, incorporated in September 1988 under the denomination of SFIR – Sociedade de Financiamento e Investimento de Risco, S.A., by Banco Espírito Santo, S.A. and subsidiaries, coordinates all of Banco Espírito Santo Group's private equity business either investing Group's funds or raising and managing funds of third parties. Its activity is focused mainly in Iberia and, in 2005, the total portfolio and funds under management by ES Private Equity amounted to EUR 124 million. At 30 December 2005 BES INV acquired through ESSI SGPS, the control of the entire share capital of ES Private Equity, given that its risk capital / private equities business was complementary to BES INV's strategy and activities in the Iberian Peninsula.

BES INV recently started operations in Poland through a newly created associated company:

Concordia Espírito Santo Investment Sp. z.o.o. (Concordia Espírito Santo)

Formed and registered in Warsaw on 25 October 2005, with a registered share capital of PLN 2,800,000, Concordia Espírito Santo is a boutique designed to run advisory and financial consultancy services in the areas of capital restructuring, M&A and Project Finance. The Bank holds 49% of its share capital through ESSI SGPS, with the remainder being held by Concordia Sp. z.o.o., a Polish company which since 1995 has been active in advising Polish and other multinational companies on large M&A deals.

Recent developments

On 31 May 2006 BES INV completed the merger by way of integration into it of its wholly owned Spanish subsidiary company ESI SV, referred to above on page 74 (the **Merger**). The rationale behind the Merger was to consolidate and enhance BES INV's operations in Spain. In August 2005, BES INV became the direct owner of ESI SV, following the acquisition of 100% of the latter's share capital from ESSI SGPS, as a preliminary step for the Merger and the subsequent allocation of ESI SV assets and liabilities to a newly registered Spanish branch of BES INV. BES INV's Spain Branch was registered in September 2005 and commenced operations on 1 June 2006 following legal completion of the merger on 31 May. The merger was authorised by both the Central Bank of Portugal (*Banco de Portugal*) and the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) on 4 January and on 19 April 2006, respectively. ESI SV, with a registered share capital of EUR 27,947,248 as at the date of Merger, was acquired during 2000 under the denomination of Benito y Monjardin, S.A., S.V. (**ByM**), by Hiscapital, Agência de Valores, S.A. (**Hiscapital**), a company 50% owned by ESSI SGPS. Both Hiscapital, ByM and Nueya Monjalo, SL – another wholly owned subsidiary company of Hiscapital – were merged on 28 December 2001, keeping the new entity ByM's statutory name. On 5 November 2003 ESSI SGPS acquired the remaining 50% of the share capital of ByM from Banco Espirito Santo, S.A. (Spain). In June 2004, ByM was renamed Espirito Santo Investment, S.A.U., S.V and in August 2005 was acquired by BES INV with a view to the restructuring of its operations in Spain as described above.

The consolidated annual financial statements of companies publicly listed in the European Union must, for the financial years starting on or after 1 January 2005, be prepared in accordance with International Financial Reporting Standards (**IFRS**) as endorsed by the European Union. Consequently, IFRS as endorsed by the European Union have been applied in the preparation of the consolidated financial statements of BES INV from 1 January 2005. For all periods up to and including the year ended on 31 December 2004, BES INV's consolidated financial statements were prepared in accordance with the applicable legal and regulatory requirements in Portugal, as established by *Banco de Portugal*, the Central Bank of Portugal. Therefore the audited figures for 2004 year end are not comparable to the audited figures for 2005 year end. BES INV restated its consolidated balance-sheet as at 31 December 2004 and its Income Statement as at 31 December 2004, in accordance with IFRS, except for IAS 32 and IAS 39 as allowed by IFRS 1, and therefore the comparative figures for 2004 include the financial instruments recognised and measured in accordance with the previous accounting policies of BES INV. Both the restated balance-sheet and Income Statement as at 31 December 2004 are herein enclosed on pages 95 to 96.

Based on the consolidated financial statements as at 31 December 2005 the total assets of BES INV were EUR 3,612.6 million and its net results amounted to euro 50.0 million.

Total assets increased by euro 991.0 million (37.8%) from 31 December 2004, as restated under IFRS except for IAS 32 and IAS 39 as allowed by IFRS 1, mainly due to: (i) increase of loans and advances to customers of euro 344.0 million (55.6%); (ii) non-current assets held for sale of euro 157.6 million (iii) the remaining being justified by increases of other assets totalling euro 284.5 million (195.9%). Liabilities increased mainly supported by the growth of (i) debt securities of euro 472.9 million (244.9%); (ii) due to customers of 405.6 million (40.2%); (iii) non-current liabilities held for sale of euro 112.4 million; and (iv) other liabilities of euro 165.0 million (118.4%).

Net income stood in line with expectations. This was recorded by net interest income (euro 20.8 million) and net fees and commissions (euro 30.6 million), with other operating income amounting to euro 30.9 million.

General administrative costs run to euro 61.5 million, resulting in an increase of euro 5.0 million in relation to the figure recorded on 31 December 2004, as restated under IFRS, except for IAS 32 and IAS 39 as allowed by IFRS 1.

Provisions showed a net increase of euro 5.4 million (notwithstanding the decrease of provisions for impairment on the Available for Sale portfolio of euro 2.4 million), mainly due to the increase of provisions for loan impairment.

Gains on disposal of investment in subsidiaries and associates amounted to euro 12.3 million.

BES INV's risk profile showed a selective exposure not only regarding country-risk and counter-party risk but also in view of the market risk, namely currency and interest rate risks.

Capital Markets – Equity Department

In 2005, BES INV received for the second consecutive year the award for "Best equities house in Portugal" by the Euromoney magazine. During 2005, BES INV was involved, among other transactions in the Portuguese market, as Joint Lead Manager in the Private Placements of Mota-Engil and Novabase, as Joint Global Coordinator & Bookrunner of the share capital increase of Espírito Santo Financial Group, S.A. and as Joint Lead Manager in the Exchangeable Bonds issued by CSFB in Semapa shares. In Brazil, during 2005, BES INV acted as Joint Global Coordinator & Bookrunner of the Secondary Offering of Bradespar and as Co-manager in the IPOs of UOL and Energias do Brasil, as well as in the Secondary Offering of Unibanco and Ultra.

In 2006 to date, BES INV has already participated in several equity offerings, both domestically and abroad. Namely, in Portugal BES INV acted as Joint Global Coordinator in the capital increase of Banco Espírito Santo, S.A., as Joint Lead Manager in the privatization of Celtejo, and as Leader in the share capital increase of Orey. In Spain, BES INV has acted as Co-manager in the IPOs of Renta Corporacion, GAM and Bolsas y Mercados Españoles and in Brazil in the IPOs of American Bank Note and Company S.A., as well as in the Block Trade of Banco do Brasil.

Capital Markets – Debt and Risk Management Department

During 2005, BES INV was joint lead manager of Eurobonds issued by REFER, Portugal Telecom and Republic of Portugal and lead or co-lead several Eurobond and domestic bond issues, commercial paper programmes and syndicated loans in its major target markets Portugal, Spain and Brazil. In regard to the Portuguese market, the main transactions were the arranging and issuance under commercial paper programmes for Teixeira Duarte – Engenharia e Construções, S.A., Metropolitano de Lisboa, EP, Controlauto – Controlo Técnico Automóvel, S.A. and SAG GEST, SGPS, S.A. In addition, BES INV was Joint Lead Manager of domestic bond issues for Modelo Continente, SGPS, S.A. and Portucel – Empresa Produtora de Pasta e Papel, S.A. In Spain, BES INV participated in several syndicated loans for Grupo Zeta, Grupo Empresas HC, Probitas Pharma and Abengoa. In the Brazilian market the bank acted as Lead Manager of bonds issued by Banco Bradesco, Banco Mercantil do Brasil, CP Cimentos and Odebrecht Overseas Limited.

In the year 2006, the major transactions carried out in the Portuguese market by BES INV were the joint lead management of the Eurobond issued for EDP Finance BV and BES Finance and the arranging of commercial paper programmes for IP Holding and Semapa. In Spain, BES INV was Lead Manager and Joint Lead Manager in several syndicated loans for Zent Inversiones, ENCE and Caprabo. In regard to the Brazilian market, BES INV acted as Lead Manager for several bond issues for Banco Mercantil do Brasil, Banco BGN and Banco Bradesco.

Trading and Derivatives

BES INV is active in the bond market, equity market and foreign exchange and derivative products. In the Brazilian market, 2005 saw a new surge in business growth, both in the number of operations and in the diversity of clients, with revenues accordingly aligned to this trend.

BES INV provides its clients with derivative products (including interest rate and foreign exchange swaps, foreign exchange options, interest rate options and equity options). By leveraging Banco Espírito Santo Group and its own clients, BES INV has managed to increase its total number of active clients and transactions. In this area, the Bank started operating in Spain in 2005.

Brokerage

BES INV has carried out a significant number of transactions in the Portuguese secondary market. A trading member for the four Euronext markets (Lisbon, Amsterdam, Brussels and Paris), BES INV's cumulative annual market shares in the Portuguese secondary equity and bond cash markets were 15.8 per cent. and 12.7 per cent., respectively, as at 31 December 2005, securing the first place in the global ranking for brokerage activities. In 2006, BES INV has maintained its position in the ranking with the cumulative market shares running to 15.1 per cent. and 36.9 per cent, respectively, as at 31 July (source: Euronext). BES INV is also a trading member for Euronext LIFFE. In Spain, BES INV has been acting, through ESI SV until 31 May 2006 and its Spain Branch thereafter, as a trading member for the Spanish cash markets of Madrid, Barcelona and Valencia. The cumulative annual market shares in the Spanish equity cash market were 4.8 per cent as at 31 August 2006, comparing with 3.65 per cent. by 2005 year end, corresponding to a ranking improvement from 10th in 2005 to 5th in 2006 (source: Fininfo). BES Securities Brazil is a trading member for the Brazilian Futures and Commodities Stock Exchange (BM&F) and for the São Paulo Stock Exchange (Bovespa). BES Securities Brazil's cumulative annual share of trading in BOVESPA was 1.5 per cent in 2005 and 1.4 per cent. as at 31 July 2006, ranking it 22nd and 21st, respectively, out of 94 houses (source: Bovespa).

Privatisations, Mergers and Acquisitions and Restructurings

BES INV has a strong position in the Iberian Market. In 2005, it was the top M&A player (Bloomberg league table, by number of transactions) in the Iberian Peninsula, overtaking the global investment banks. Additionally, BES INV was considered by EUROMONEY as the "*Best Investment Bank in Real Estate in Portugal 2005*". During 2005 and 2006, in Portugal, Espírito Santo Investment was involved in, amongst other projects, advising Previdente in the acquisition of the Italian company Italcables; advising ES Saúde in the acquisition of Hospor; advising Grupo Osborne in the sale of assets related to wine production; advising Babcock & Brown in the acquisition of Enersis; advising Tecneira in the sale of 5 subsidiaries, which are developers of wind farms in Portugal; advising Grupo Salvador Caetano in the acquisition of Setucar; advising Portugal Telecom in the sale of Lusomundo Serviços; advising the sale of the pharmaceutical group Jaba; advising the sale of WhatEverNet to Pararede; advising ESIA in the acquisition of 33.92% of EDA – Electricidade dos Açores in its privatisation process; advising the Portuguese State in the privatisation process of Portucel Tejo and CPK; advising CTT in the acquisition of the Spanish company Tourline Express; advising the sale of Promorail to Grupo Edifer; advising Grupo Banco Espírito Santo in the sale of Tranquilidade Vida (100%) and Espírito Santo Seguros (50%); advising Grupo Banco Espírito Santo in the acquisition of 33% of Partran (owner of 100% of Tranquilidade) and advising ES Tourism in the acquisition of the Brazilian Eco Resort Praia do Forte. In Spain, Espírito Santo Investment was involved in, amongst other projects, advising 3i in the acquisition of 70% of Gebomsa in 2005, and in the subsequent build up of Gebomsa through the acquisition of Eurobombeos and Bonorsa (transactions already concluded in 2006); advising Grupo Videomedia in the sale of 30% of its share capital to Vocento; advising Selenis in the acquisition of 51% of VPI and in the sale of 100% of Selenis Indústria de Polimeros and Aussapol to La Seda de Barcelona; advising Imatosgil Investimentos in the acquisition of 28.5% of Control Pet.

Project Finance and Securitisation

In 2005 and 2006 BES INV maintained its strong position in Project Finance. In the 2006 1st semester League Tables it was ranked in 4th place worldwide in relation to the Project Finance Advisory Mandates won; in 2005 won two important awards: ''Arranger of the Year in Transportation'' by ''Infrastructure Journal'', the second-year running that BES INV received this highly prestigious project finance award; and ''Leveraged Infrastructure of the Year'' by ''Project Finance Magazine'', for its Secondary Market Infrastructure Fund (SMIF) executed by the London Branch team.

BES INV Project Finance activity in Portugal was very strong in 2005 with 19 different transactions closed throughout a number of different sectors - energy, roads, leisure, real estate, health - allowing the Parent to consolidate its leadership in the market. The activity should be

enhanced by the addition of a securitisation team which will complement the Project Finance team activities and generate synergies.

In London, the Project Finance team led seven infrastructure projects. With reference to the PPI (Public Private Initiatives) transactions in the secondary market, the main project was the Secondary Market Infrastructure Fund amounting to 250 million pounds sterling. This was the third transaction undertaken by BES INV in the Fund, which holds 58 PPI Investments. BES INV also structured a transaction for the SMIF on the acquisition of the Agecroft project and all of GSL's assets.

In the primary market, BES INV was active in Central Europe, and structured the third phase of the M5 motorway in Hungary, amounting to 150 million euros. This is the third project in three successive years that BES INV has undertaken for the Budapest - Szeged motorway. In addition to the afore-mentioned projects the Parent is also involved in an on-going Spanish based project with CESA, for a wind farm.

Additionally, in March 2005 BES INV advised on two important transactions: the concession for the Trakia motorway, mandated by the Bulgarian Prime Minister, where BES INV acted for the concession and in South Africa and Mozambique, where the Parent acted as financial advisor for the national motorway authorities in both countries on the refinancing of the N4 project of the Maputo Corridor.

In Spain, BES INV enhanced their Project Finance presence by creating a majority Spanish nationals' team and strengthening their relationship with the major infrastructure players. The following transactions are highlighted: advisor to the Isolux Córsan - Corviam consortium on the virtual toll road in Madrid and in Galicia; advisor to the consortium led by Comsa in Valencia and by ACS in Ibiza. The Parent also acted on the toll by-pass project in Alicante, run by ACS, the high speed Figueras-Perpignan rail-track, run by ACS and Eiffage, and the virtual toll road in Santiago-Brion run by ACS.

In Brazil, the Parent focused on infrastructure and energy projects in 2005. BES INV was the advisor to Furnas Centrais Electricas S.A., one of the largest electrical energy generating and transmitting groups, on the auction for the right to exploit and sell energy generated by two hydro-electric units, generating in total 360 MW of installed power. BES INV also advised a consortium of Portuguese companies on the auction to buy the concession rights to build and manage two transmission lines in Brazil. The Parent advised Construtora Odebrecht, one of the largest Brazilian industrial companies, on the signing of a memo of intent to structure and raise an investment fund for the federal road system.

In 2005, the Parent's Project Finance and Securitisation team established a permanent office in Luanda, in accordance with the memo of understanding between BES INV and Banco Espirito Santo of Angola. In Angola BES INV focussed on mining project finance, acting as financial advisor on the Luó and Chibongo diamond projects, and on energy project finance, acting as advisor to the Hidroluapasso Project.

Acquisition/Leveraged Finance

BES INV focuses its leveraged finance activities in the Iberian market. In Portugal and Spain, the Bank continued to concentrate on the structuring of operations under lead-arranger mandates. During 2005 BES INV was Mandated Lead-Arranger in the financing of the acquisitions of Enersis by Babcock & Brown (Portugal), Holmes Place (Portugal and Spain), Gebomsa (Spain), Cristher and Dopo (Spain) and Sabater-Tobella (Spain) by CDFT in its build-up process. BES INV also acted as Mandated Lead-Arranger in Portugal in the refinancing of the senior debt of Emparque and A. Silva & Silva. BES INV was also involved as Lead-Arranger in other transactions: the acquisitions of Dinosol Supermercados (Spain), Bodybell (Spain), Hospiten (Spain) and Cortefiel (Spain). In addition BES INV has also been awarded the mandate to the Staple Finance related to the acquisition of Svenson and Panreac in Spain.

In 2006 to date, BES INV has already closed, as Mandated Lead-Arranger, the financing related to the acquisition of Fundo Imodesenvolvimento (Portugal) by JP Morgan and the refinancing of the senior debt of High-Tech Hoteles (Spain). The Bank was also involved, as Lead Arranger, in the

acquisition of Iberostar (Spain) and in the debt facility for Terrafield (Spain) related to the construction of a concrete plant.

International operations

As a result of its previous efforts to expand internationally, BES INV has been in the forefront in assisting Portuguese companies to develop international operations. In addition it assists a number of international companies (European, Brazilian, and US) in transactions outside Portugal.

In particular, BES INV recognizes business opportunities and submits proposals, especially for mergers and acquisitions, to its clients and subsequently provides financial consultancy services involving the relevant appraisal, syndication and financial engineering.

BES INV is active in Brazil, where it acts through a 80% indirectly owned local investment bank, BES Investimento do Brasil, S.A. – Banco de Investimento, referred to on page 75, and the latter's brokerage and fund management subsidiary companies. In Spain, the Bank carries investment banking and brokerage operations through its local Branch, and the London Branch operates in the Project Finance market in geographies other than Iberia (page 74). BES INV has also recently initiated operations in Poland through a 49% indirectly owned local corporate finance advisory boutique, Concordia Espirito Santo Investment Sp. z. o. o. (page 76).

Management and Employees

The overall management of BES INV is entrusted to a Board of Directors. The day to day management of BES INV is entrusted to an Executive Commission composed of eleven members, who are all Directors. The supervision of business activities of BES INV is entrusted to a Supervisory Board composed of three permanent members, one of whom acts as chairperson, and by one alternate member, all of them are independent persons in the meaning that they are not associated to any interests of the Bank. One of the permanent members and the alternate member are both independent and registered auditors.

At 31 August 2006, BES INV had 309 members of staff, including both the Spain and the London Branches (105 and 9, respectively), which compares with the 305 staff members engaged in 2005 year-end, including the staff of former Espírito Santo Investment, S.A.U., S.V. The staff number runs to 424 adding the subsidiary companies domiciled in Brazil and Ireland (426 as at 31 December 2005).

Directors

The Directors of BES INV and their principal other positions and activities are as follows:

Name	Position with BES INV	Other Principal Activity
Ricardo Espirito Santo Silva Salgado	Chairman of the Board of Directors	CEO and Vice-Chairman of the Board of Directors of Banco Espirito Santo, S.A.; Chairman of the Board of Directors of Espirito Santo Financial Group, S.A. (Luxembourg), of Espirito Santo Financial (Portugal) – Sociedade Gestora de Participações Sociais, S.A., of Espírito Santo Financial (BVI), S.A., of Espirito Santo Overseas, Ltd., of Espírito Santo Saúde, Sociedade Gestora de Participações Sociais, S.A., of ESAF – Espirito Santo Activos Financeiros, S.G.P.S., S.A., of BESPAR – Sociedade Gestora de Participações Sociais, S.A., of PARTRAN – Sociedade Gestora de Participações Sociais, S.A., of ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A., of BEST – Banco Electrónico de Serviço Total, S.A., of Casa dos Pórticos – Sociedade de Administração de Bens, S.A. and of Sociedade de Administração de Bens Pedra da Nau, S.A.; Vice-Chairman of the Board of Directors of E.S. Holding Administração e Participações, S.A. and of Espírito Santo

Name	Position with BES INV	Other Principal Activity
		Bank (Florida); Board Director of Banco Espírito Santo, S.A. (Spain), of Banco Bradesco, S.A. (Brazil), of Banque Espírito Santo et de la Vénétie, S.A. (France), of BES Finance, Ltd., of BES Overseas, Ltd., of Cariges, S.A., of Compagnie Bancaire Espírito Santo, S.A. (Lausanne, Switzerland), of E.S. Control (BVI), S.A., of E.S. Control Holding, S.A., of E.S. International, S.A., of Espírito Santo BP Invest, S.A., of Espírito Santo BVI Participation Limited, of Espírito Santo Industrial (BVI), S.A., of Espírito Santo International (BVI), S.A., of Espírito Santo Property (BVI), S.A., of Espírito Santo Resources Limited, of GESPETRO, Sociedade Gestora de Participações Sociais, S.A., and of Novagest Assets Management, Ltd.; Managing Director of Espírito Santo Financial Services, Inc.; Supervisory Board member of Euronext NV – Sociedade Gestora de Mercados Regulamentados, S.A. (Euronext Lisbon) and of IIEB – Institut International d'Études Bancaires (Chairman).
José Maria Espírito Santo Silva Ricciardi	Vice-Chairman of the Board of Directors and CEO	Member of the Board of Directors and of the Executive Committee of Banco Espírito Santo, S.A.; Chairman of the Board of Directors of BES Investimento do Brasil, S.A. – Banco de Investimento (São Paulo – Brazil); Member of the Board of Directors of Espírito Santo Financial Group S.A. (Luxembourg) and of ES Recuperação de Crédito, ACE; Member of the General and Supervisory Board of EDP – Energias de Portugal, S.A.; Chairman of the Shareholders' General Meetings of Controlled Sport (Portugal), Turismo, Cinegética e Agricultura, S.A. and of PT Meios – Serviço de Publicidade e Marketing, S.A.; Deputy Chairman of the Shareholders' General Meeting of Espart – Espírito Santo Participações Financeiras, S.G.P.S., S.A.; Deputy Chairman of the Supervisory Board of Sporting Clube de Portugal.
Francisco Ravara Cary	Vice-Chairman of the Board of Directors and on Executive Committee	Chairman of Espírito Santo Capital – Sociedade de Capital de Risco, S.A. and of SES Iberia Private Equity, S.A. (Spain); Member of the Board of Directors of BES Investimento do Brasil, S.A. – Banco de Investimento (São Paulo, Brazil), of BRADESPAR, S.A. (São Paulo, Brazil), of Espirito Santo de Investimentos, S.A. (São Paulo, Brazil), of ESSI, Comunicações, S.G.P.S., S.A., of ESSI, Investimentos, S.G.P.S., S.A., of ESSI, Sociedade Gestora de Participações Sociais, S.A. and of Espírito Santo Ventures, Sociedade de Capital de Risco, S.A.. Member of the Supervisory Board of Casa da América Latina and Executive Director with Jampur – Trading Internacional, Lda (Madeira Is., Portugal).
Rafael Caldeira de Castel-Branco Valverde	Vice-Chairman of the Board of Directors and on Executive Committee	Member of the Board of Directors of BES Investimento do Brasil, S.A. – Banco de Investimento (São Paulo, Brazil), of ESSI, Comunicações, S.G.P.S., S.A., of ESSI, Investimentos, S.G.P.S., S.A. and of ESSI, Sociedade Gestora de Participações Sociais, S.A.; Member of the

Name	Position with BES INV	Other Principal Activity
		Supervisory Boards of Academia de Música de Sta. Cecília and of SEMAPA – Sociedade de Investimento e Gestão, S.G.P.S., S.A.; Deputy Chairman of the Portuguese Rugby Federation.
Christian Georges Jacques Minzolini	Executive Director	Member of the Board of Directors of Panorama, S.A. (Spain) and of SES Iberia Private Equity, S.A. (Spain); Executive Director with Frazolini – Gestão de Investimentos e Consultadoria, Lda.; Member of the Advisory Board to Salvago, S.A. (Spain).
Diogo Luís Ramos de Abreu	Executive Director	Executive Director of ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A.; Member of the Board of Directors of Espírito Santo Capital – Sociedade de Capital de Risco, S.A., of TLCI – Soluções Integradas de Telecomunicações, S.A. and of TLCI 2 – Soluções Integradas de Telecomunicações, S.A.
Félix Aguirre Cabanyes	Executive Director	Sole Director of Feviblan Inversiones, S.L. (Madrid, Spain)
Luis Miguel Pina Alves Luna Vaz	Executive Director	Member of the Executive Committee (Capital Markets). No positions held in other companies.
Paulo José Lameiras Martins	Executive Director	Member of the Executive Committee (Corporate Finance). No positions held in other companies.
Pedro Manuel de Castro Simões Ferreira Neto	Executive Director	Chairman of the Board of Directors of ES Concessões, S.G.P.S., S.A.; Member of the Board of Directors of Banco Espírito Santo de Angola, S.A. (Angola), of Banco Espírito Santo do Oriente, S.A. (Macao, China), of BES Investimento do Brasil, S.A. – Banco de Investimento (São Paulo, Brazil) and of ESCOM – Espírito Santo Commerce, S.A.; Member of the Supervisory Board of SMCC – Sociedade Mineira do Camatchia e Camagico, S.A.R.L (Angola).
Ricardo Abecassis Espírito Santo Silva	Executive Director	Chairman of the Board of Directors of Banco Espírito Santo de Angola, S.A.; Vice-Chairman of the Board of Directors of Espírito Santo Bank (Florida); Board Director and Chairman of the Executive Committee of BES Investimento do Brasil, S.A. – Banco de Investimento (São Paulo, Brazil), of Espírito Santo de Investimentos, S.A. (São Paulo, Brazil), of E.S. Holding (Brazil) and of SEICOR – Comércio, Administração e Participações, S.A. (Brazil); Board Director of Banco Espírito Santo, S.A., of BES Finance, Limited, of Bradespar, S.A. (Brazil), of E.S. Control Holding, S.A., of ESPART – Administração e Participações, S.A., of Espirito Santo Financial (Portugal) – Sociedade Gestora de Participações Sociais, S.A., of Espírito Santo International, of Espírito Santo Resources Limited (Bahamas), of Euroamerican Finance Corporation, Inc., of Monteiro Aranha, S.A. (Brazil), of Novagest Assets Management, Ltd. and of USHUAIA – Gestão e Trading Internacional, Ltd.; Replacement

Name	Position with BES INV	Other Principal Activity
		Member of the Board of Directors of Agribahia, S.A. (Brazil); Managing Director of ESAI – Espírito Santo Ativos Imobiliários, Lda. (Brazil) and of InterAtlântico, S.A. (Brazil); Director of Associação Espírito Santo Cultura, of Europ Assistance (Brazil), of ESCAE – Administração e Participações, Ltda (Brazil), of GESPAR S/C Ltda. (Brazil), of ESAP Brasil Agro-Pecuária (Brazil), of ES Consultoria, of Joá Imobiliária Ltda. (Brazil) and of Câmara Portuguesa de Comércio no Brasil (Brazil); Member of the Advisory Board to Portugal Telecom (Brazil); Chairman of the Supervisory Board of Banco Espírito Santo do Oriente, S.A. (Macao, China) and Member of the Supervisory Board of Banco Bradesco, S.A. (Brazil).
Tiago Vaz Pinto Cyrne de Castro	Executive Director	Member of the Board of Directors of Cominvest – Sociedade de Gestão e Investimento Imobiliário, S.A., of Espírito Santo Capital – Sociedade de Capital de Risco, S.A., of Espírito Santo Investment p.l.c. (the **Issuer**), of ESSI, Comunicações, S.G.P.S., S.A., of ESSI, Investimentos, S.G.P.S., S.A., of ESSI, Sociedade Gestora de Participações Sociais, S.A. and of MULTIGER – Sociedade de Compra, Venda e Administração de Propriedades, S.A.; Member of the Supervisory Board of Besleasing e Factoring – Instituição Financeira de Crédito, S.A.
Amílcar Carlos Ferreira de Morais Pires	Director	Board Director of and on Executive Committee of Banco Espírito Santo, S.A.; Executive Chairman of the Board of Directors of Bank Espírito Santo (International) Limited; Executive Board Director of BES Finance, Limited, of BES Overseas, Limited and of Espírito Santo p.l.c. (Ireland); Board Director of Banco Espírito Santo do Oriente, S.A. (Macao, China), of Companhia de Seguros Tranquilidade-Vida, S.A., of ESAF, Espírito Santo Activos Financeiros, S.G.P.S., S.A. and of MTS Portugal – Sociedade Gestora do Mercado Especial de Dívida Pública, S.G.M.R., S.A.; Member of Disciplinary Committee to the International Securities Markets Association (ISMA).
António Espírito Santo Silva Salgado	Director	Chairman of the Board of Directors of Controlled Sport (Portugal) – Turismo Cinegética e Agricultura, S.A., of Empresa das Águas do Vimeiro, S.A., of Empresa Hotel Astória de Monfortinho, S.A. and of MONFORTUR – Monfortinho Turismo, S.A.; Board Director and Managing Head of Companhia das Águas da Fonte Santa de Monfortinho, S.A.; Board Director of Cinegitur – Empreendimentos Cinegético-Turísticos, S.A.
Bernard Marcel Basecqz	Director	CEO and Managing Director of Kredietbank (Suisse), S.A.; Vice-Chairman of de Board of Directors of Privagest (Geneve, Switzerland) and Board Director of Kredietbank Luxembourg (Monaco), S.A.M. and of Lebanon Holding (Investment Fund – Sicav, Luxembourg).

Name	Position with BES INV	Other Principal Activity
Bernardo Ernesto Simões Moniz da Maia	Director	Executive Vice-Chairman of the Board of Directors of Mague Gestão e Participações, S.G.P.S., S.A.; Board Director of Aqua-Yser, S.A., of DEPIN – Produtos Depilatórios, S.A., of Euro-Yser, Produtos Químicos, S.A., of FINOVA, S.G.P.S., S.A., of G.P.M.G. – Gestão e Participações, S.G.P.S., S.A., of IMOMAGUE, S.A., of RIOS & OCEANOS – Sociedade de Exploração Turistica, S.A., of SOGEMA – S.G.P.S., S.A. and of TOTALPART – S.G.P.S., S.A.
Duarte José Borges Coutinho Espirito Santo Silva	Director	No other positions held.
João Filipe Espírito Santo de Brito e Cunha	Director	Member of the Board of Directors of Banco Espírito Santo de Angola, S.A., of Banco Espírito Santo Sailing Team, S.L. (Spain), of ESLUMO (Spain), of Espírito Santo Properties (Spain), of Eunea Investments, S.L. (Spain), of NSI – Nueva Salud Integral, S.L. (Spain), of VESB – Gestão de Investimentos e Prestação de Serviços, Lda. and of Sociedade Imobiliária e Turística da Quinta do Perú, S.A.
José Manuel Pinheiro Espírito Santo Silva	Director	Board Director and on the Executive Committee of Banco Espírito Santo, S.A.; Chairman of the Board of Directors of Banco Espírito Santo, S.A. (Spain), of Compagnie Bancaire Espírito Santo, S.A. (Lausanne, Switzerland), of Fiduprivate – Sociedade de Serviços, Consultoria, Administração de Empresas, S.A. and of Sociedade Imobiliária e Turística da Quinta do Perú, S.A.; Vice-Chairman of the Board of Directors of ESFG Overseas Limited, of Espírito Santo Financial Group, S.A. (Luxembourg), and of Espírito Santo Financial (Portugal), Sociedade Gestora de Participações Sociais, S.A.; Board Director of Banque Espírito Santo et de la Vénétie, S.A. (France), of BESPAR – Sociedade Gestora de Participações Sociais, S.A., of ES Control Holding, S.A., of ESAF – Espírito Santo Activos Financeiros, S.G.P.S, S.A., of Espírito Santo Bank (Florida), of Espírito Santo Internacional, S.A., of Espírito Santo Resources Limited, of Espírito Santo Services, S.A. and of Europ Assistance – Companhia Portuguesa de Seguros de Assistência, S.A.
Manuel de Magalhães Villas-Boas	Director	Board Director of Banco Espirito Santo, S.A., of BES Finance Limited, of BES Overseas, Limited, of ESFG Overseas, Limited, of Espirito Santo Financial Group, S.A. (Luxembourg) and of Espirito Santo Investment Management; Vice-Chairman of the Board of Directors of Espirito Santo Overseas, Limited.
Mário da Silveira Teixeira Júnior	Director	Vice-Chairman of the Board of Directors of BES Investimento do Brasil S.A. – Banco de Investimento and

Name	Position with BES INV	Other Principal Activity
		of Companhia Vale do Rio Doce; Executive Board Director of CPFL Energia, S.A.; Board Director of Banco BEC, S.A., of Banco Bradesco S.A., Bradesco Leasing, S.A. – Arrendamento Mercantil, of Bradespar, S.A., of Bradesplan Participações, S.A., of Cidade de Deus – Companhia Comercial de Participações, of ELO Participações, S.A., of Valepar, S.A.; Director of NCF Participações, S.A., of Nova Cidade de Deus Participações, S.A. and of Top Clube Bradesco, Segurança, Educação e Assistência Social; Member of the Staff Remuneration Committee of Bradesco Trustee and Managing Director of the Bradesco Foundation; Member of the Board of Directors and Managing Director of the Foundation for Digestive Tract and Nutritional Complaints; with all the above companies and institutions head-quartered in Brazil.

In a General Meeting held on 30 March 2005, the Board was re-elected for a four year term (2005-2008). The Board met on 31 March 2005 and approved the formation of the Executive Committee, reappointing all of the Board's Executive Directors including Mr. José Maria Ricciardi as Chairman, and nominating the new Directors Mr. Luís Luna Vaz and Mr. Paulo Martins as members. On 22 November 2005, Mr. Amílcar Carlos Ferreira de Morais Pires, Executive Director of Banco Espírito Santo, S.A., and Mr. Félix Aguirre Cabanyes were elected as Directors at the Universal Shareholders' Meeting. On 19 December 2005 the Board increased the members of the Executive Committee from 9 to 11 to include Mr. Félix Aguirre Cabanyes and Mr. Ricardo Abecassis Espírito Santo Silva, who had been a Board Director from 25 July 2003.

The Executive Committee has eleven members, with the following roles:

Chairman:

José Maria Espírito Santo Silva Ricciardi

He is also Chairman of the Investment Banking, Capital Markets and Investment Committees. Operating area: Strategic Planning.

Members:

Francisco Ravara Cary

Chairman of the Credit Risk Committee and ALCO; Head of the Secondary Market – Equity and Fixed Income Divisions; and is Chairman of ES Private Equity.

Rafael Caldeira de Castel-Branco Valverde

Client Relationship, Financial Services, Leverage Finance, Capital Markets Origination.

Christian Georges Jacques Minzolini

Head of Equity Derivatives and Arbitrage.

Diogo Luís Ramos de Abreu

Special Projects.

Felix Aguirre Cabanyes

Spain Branch.

Luís Miguel Pina Alves Luna Vaz

Capital Markets Origination and Secondary Market – Equity.

Paulo José Lameiras Martins

Financial Services.

Pedro Manuel de Castro Simões Ferreira Neto

Head of Project Finance and Securitisation and International Divisions, the London Branch and the Luanda representation office.

Ricardo Abecassis Espírito Santo Silva

Head of BES Investimento Brazil and BES Securities Brazil.

Tiago Vaz Pinto Cyrne de Castro

Head of Risk Management, Information and Management Reporting Systems, Operations and other support areas, he supervises Espírito Santo Investment, p.l.c., the Issuer.

The Parent is not aware of any potential conflict of interest between the duties of each of the members of its Board of Directors and his/her private interests or other duties.

The Parent complies with the current corporate governance regime of Portugal.

The business address of each of the Directors of the Parent is at Edifício Quartzo, Rua Alexandre Herculano, 38, 1269-161 Lisbon, Portugal. The Parent can be contacted on: +35 121 319 69 00 (main reception) and by fax on : +35 121 330 95 00.

RELATIONSHIP OF THE ISSUER WITH THE PARENT

Keep Well Agreement

The Issuer and the Parent have entered into a Keep Well Agreement dated 22 November 2005 (the **Keep Well Agreement**) governed by English law. The following is the text of the Keep Well Agreement:

This Keep Well Agreement is made on 22 November 2005 by and between (1) BANCO ESPIRITO SANTO DE INVESTIMENTO, S.A., whose registered office is at Edificío Quartzo Rua Alexandre Herculano 38, 1269-161 Lisboa, Portugal (the **Parent**) and (2) ESPIRITO SANTO INVESTMENT p.l.c., whose registered office is at 2 Harbourmaster Place, Custom House Dock, Dublin 1, Ireland (the **Issuer**).

WHEREAS:

(A) the Issuer is a wholly-owned subsidiary of the Parent; and

(B) the Issuer intends to raise funds by the issue of unsubordinated notes (the **Senior Notes**), dated subordinated notes (the **Dated Subordinated Notes**) and undated subordinated notes (the **Undated Subordinated Notes** and, together with the Senior Notes and the Dated Subordinated Notes, the **Notes**) under a €1,500,000,000 Euro Medium Term Note Programme (the **Programme**) and to use such funds for its general corporate purposes; and

(C) the Notes will be constituted by a trust deed dated 23 April 1999 (as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) between the Issuer, the Parent and Citicorp Trustee Company Limited as trustee (the **Trustee**).

NOW, THEREFORE, the Parent and the Issuer hereby agree as follows:

1. In consideration of the sum of £1 paid by the Issuer to the Parent (receipt of which the Parent hereby acknowledges), the Parent will own, directly or indirectly, the entire issued share capital of the Issuer and will control the composition of the board of directors of the Issuer so long as any Notes are outstanding. The Parent will not, directly or indirectly, pledge, grant a security interest in or encumber or otherwise dispose of any of such share capital or permit its subsidiaries to do so.

2. (A) Subject to the provisions of clauses 3 and 4 below, at all times, while any Notes are outstanding, the Parent will cause the Issuer to maintain or will make available to the Issuer, before the due date of any relevant payment obligations under the Notes, funds sufficient to enable the Issuer to satisfy such payment obligations in full as they fall due. The Issuer shall use the funds made available to it by the Parent solely for the satisfaction when due of such payment obligations.

   (B) Any and all funds from time to time provided by the Parent to the Issuer pursuant to clause 2(A) above shall be either (i) by way of the subscription for and payment of share capital (other than redeemable share capital) or (ii) by way of subordinated loan, that is to say a loan which, and interest on which, is not permitted to be, and is not capable of being, repaid or paid unless, and then only to the extent that, the Issuer is, and immediately thereafter would continue to be, solvent in all respects and is subordinated on a winding up of the Issuer to all of the other unsecured creditors (whether subordinated or unsubordinated) of the Issuer.

3. The obligations of the Parent under clause 2(A) above in respect of Dated Subordinated Notes are unsecured and will be subordinated to the extent that, in the event of the bankruptcy or winding up of the Parent, and to the extent permitted by Portuguese law, payment by the Parent under this Agreement (insofar as such payment relates to payment obligations of the Issuer in respect of Dated Subordinated Notes) will be conditional upon the Parent being able to satisfy in full the claims of all unsubordinated creditors of the Parent.

4. The obligations of the Parent under clause 2(A) above in respect of Undated Subordinated Notes are unsecured and are subordinated, to the extent permitted by Portuguese law, to the claims of Senior Creditors (as defined below) of the Parent in that payment by the

Parent under this Agreement (insofar as such payment relates to payment obligations of the Issuer in respect of Undated Subordinated Notes) is conditional upon the Parent being solvent (as defined below) at the time of payment by the Parent to the Issuer pursuant to clause 2(A) above and in that no such payments shall be made except to the extent that the Parent could make such payment and still be solvent immediately thereafter. For this purpose, the Parent shall be considered to be solvent if both (i) it is able to pay its debts to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities (each as defined below) to Senior Creditors.

A report as to the solvency of the Parent by (a) two directors of the Parent or, if the directors have not reported to the Issuer within fourteen days before any payment made pursuant to this clause (4), the auditors of the Parent or (b) if the Parent is being wound up, its liquidator shall, in each case in the absence of manifest error, be treated and accepted by the Issuer as correct and sufficient evidence thereof.

For the purposes of this clause 4:

(A) **Assets** means the total consolidated gross assets of the Parent and **Liabilities** means the total consolidated gross liabilities of the Parent, all as shown by the latest published audited balance sheet of the Parent but adjusted for contingencies and for subsequent events in such manner and to such extent as such directors, auditors, liquidator or examiner, as the case may be, may determine to be appropriate; and

(B) **Senior Creditors of the Parent** means creditors of the Parent who (x) are depositors or other unsubordinated creditors of the Parent or (y) are subordinated creditors of the Parent other than those whose claims rank *pari passu* with or junior to the claims of the Issuer against the Parent under the Keep Well Agreement in respect of Undated Subordinated Notes.

In order to allow the Parent to continue its business activity the amounts that would otherwise be payable to the Issuer for payment of principal and interest on the Undated Subordinated Notes will be available to meet the losses of the Parent.

5. If, otherwise than for the purposes of a Permitted Reorganisation (as defined below) or for the purpose of a reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders (as so defined), an order is made or an effective resolution is passed for the winding up of the Parent, the Parent shall, in lieu of any other payment to the Issuer under this Agreement in respect of the Undated Subordinated Notes be obliged to pay such amounts as would have been payable to the Issuer if the Issuer had, on the day preceding the commencement of such winding up, become a holder of preference stock or shares in the capital of the Parent forming or being part of a class having a preferential right in the winding up over the holders of all other classes of stock or shares in the capital of the Parent and entitled to receive in such winding up an amount equal to the full amount payable under this Agreement in respect of the Undated Subordinated Notes.

Permitted Reorganisation means an amalgamation, merger, consolidation, reorganisation or other similar arrangement entered into by the Parent with the consent of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders under which:

(a) the whole of the business, undertaking and assets of the Issuer or, as the case may be, the Parent are transferred to and all the liabilities and obligations of the Parent are assumed by the new or surviving entity resulting from such amalgamation, merger, consolidation, reorganisation or other similar arrangement either:

(i) automatically by operation of the laws of Portugal; or

(ii) upon terms and subject to the satisfaction of such conditions as the Trustee shall have previously approved in writing in order to satisfy the Trustee that the new or surviving entity will be bound by the terms of the Trust Deed and the Notes as fully as if it had been named in the Trust Deed and the Notes in place of the Parent; and, in either case,

(b) the new or surviving entity will immediately after such amalgamation, merger, consolidation, reorganisation or other similar arrangement be subject to the same regulation and supervision by the Regulatory Authority (as defined in the Trust Deed) as the Parent was subject immediately prior thereto.

6. The Parent warrants and agrees that the obligations of the Parent which may arise hereunder in respect of:

(i) Senior Notes constitute unsecured and unsubordinated obligations of the Parent and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Parent, present and future, subject to mandatory provisions of law affecting creditors' rights generally and statutorily preferred obligations;

(ii) Dated Subordinated Notes constitute unsecured and, in accordance with clause 3 above, subordinated obligations of the Parent and will rank, in the event of a bankruptcy or winding up of the Parent, to the extent permitted by Portuguese law, at least *pari passu* with all other Subordinated Indebtedness (as defined below), present and future, of the Parent; and

(iii) Undated Subordinated Notes constitute unsecured obligations of the Parent, subordinated in accordance with clause 4 above, and rank *pari passu* without preference among themselves.

For the purposes paragraph (ii) above, **Subordinated Indebtedness** means all indebtedness of the Parent which is subordinated, in the event of the winding up of the Parent, in right of payment to the claims of depositors and other unsubordinated creditors of the Parent and for this purpose indebtedness shall include all liabilities, whether actual or contingent.

7. This Agreement is not, and nothing herein contained and nothing done by the Parent pursuant hereto shall be deemed to constitute, a guarantee, direct or indirect, by the Parent of any Notes or any payment obligations arising out of or in connection with any Notes.

8. If the Issuer shall be in liquidation, administration or receivership or other analogous proceedings, and the Parent shall be in default of its obligations hereunder, the Parent shall be liable by way of liquidated damages to the Issuer for such breach in an amount equal to the sum that the Parent would have paid had it performed in full its obligations hereunder and the Issuer (and any liquidator, administrator or receiver of the Issuer or other analogous officer or official) shall be entitled to claim accordingly.

9. This Agreement may be modified or terminated only by the written agreement of the Parent and the Issuer.

10. This Agreement is governed by, and shall be construed in accordance with, English law except that clauses 3 and 4 are governed by, and shall be construed in accordance with, the laws of Portugal. Each of the Parent and the Issuer hereby irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceedings (together **Proceedings**) arising out of or in connection with this Agreement may be brought in such courts and each waives any objection to Proceedings in such courts whether on the grounds that the Proceedings have been brought in an inconvenient forum or otherwise. Each of the Parent and the Issuer hereby appoints Banco Espirito Santo, S.A., London Branch as its agent to accept service of process on its behalf in England in respect of any Proceedings and agrees that, in the event of Banco Espirito Santo, S.A., London Branch ceasing so to act, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing in this clause shall affect the right to serve process in any other manner permitted by applicable law.

11. This Agreement and any supplements hereto may be executed and delivered in any number of counterparts, all of which, taken together, shall constitute one and the same agreement and any party to this Agreement or any agreement supplemental hereto may enter into the same by executing and delivering, a counterpart.

IN WITNESS WHEREOF this Agreement has been entered into on the date which appears first on page 1.

BANCO ESPIRITO SANTO DE INVESTIMENTO, S.A.

By:

ESPIRITO SANTO INVESTMENT p.l.c.

By:

Note:

The Keep Well Agreement is not, and should not be regarded as equivalent to, a guarantee by the Parent of any payment in respect of the Notes. The Issuer has, under the terms of the Trust Deed, assigned its rights under the Keep Well Agreement by way of security to the Trustee for the benefit of the Noteholders as security for payment of principal and interest on the Notes. Following an Event of Default, the Trustee will be entitled, on behalf of the Noteholders, to enforce such security and to enforce the Issuer's rights under the Keep Well Agreement against the Parent in accordance with the terms of the Trust Deed. Enforcement in the English courts will be subject, among other things, to the powers of such courts to stay proceedings and other principles of law and equity of general application.

The Parent's participation, signature and execution of any of the programme documentation and the existence of Keep Well Agreement does not correspond to, nor can it be construed as, any form of undertaking of liability by the Parent against the Noteholders, without prejudice to the assignment by way of security of the rights of the Issuer under the Keep Well Agreement pursuant to the Trust Deed.

Financial and other information concerning the Parent is provided for background purposes only in view of the importance of the Keep Well Agreement; it should not be treated as implying that the Keep Well Agreement can be viewed as a guarantee.

DESCRIPTION OF THE PORTUGUESE BANKING SECTOR

Recent History

The Portuguese financial system has undergone a steady process of deregulation and liberalisation since 1983, which has resulted in important structural and operational changes. The most significant measures included the privatisation process (initiated in 1989), the opening of the banking system to foreign competition, the gradual lifting of restrictions on capital movement and the implementation of legislation which brought Portuguese banking regulations into line with EC legislative practice.

The relevant regulations for financial institutions have undergone a series of amendments since 1991 to reflect the changes to the financial system. In particular, the so-called Legal Framework of Credit Institutions and Financial Companies, enacted through Decree-Law no. 298/92 dated 31 December 1992 (as amended) (the **New Banking Law**) introduced a comprehensive regulatory framework into Portugal in line with EC directives. This included the abolition of the distinction between investment and commercial banks and the creation of the distinction between Credit Institutions *Instituições de Crédito* and Financial Companies *Sociedades Financeiras*, the establishment of prudential and supervisory rules on a consolidated basis, the adoption of the EU passport and the creation of a deposit guarantee fund in order to protect depositors.

Credit Institutions are, broadly, banks, leasing and factoring companies, while Financial Companies are mainly brokers, dealers, fund managers (other than pension fund managers), capital development companies and foreign exchange agencies.

The most extensive amendment to the Legal Framework of Credit Institutions and Financial Companies, enacted through Decree-Law no. 201/2002, dated 26 September 2002, introduced a number of new financial entities – *Sociedades de Garantia Mútua, Instituições de Moeda Electrónica, Sociedades Gestoras de fundos de Titularizaço de Créditos, Instituições Financeiras de Crédito* – as well as a set of new rules on several matters, including relevant participations.

Banks, brokers, dealers and fund managers are also, pursuant to the Portuguese Securities Code (*Código dos Valores Mobiliários*), under the supervision of the Portuguese Securities Market Commission *(Comissão do Mercado de Valores Mobiliários)*.

In 1996, Portugal adopted new legislation on investment services, credit institutions and prudential supervision, through the Decree-Law no. 232/96 dated 5 December, which implemented the Council Directive 93/22/EEC, dated 10 May, on Investment Services in the securities field, the European Parliament and Council Directive 95/26/EC, dated 29 June, on reinforcement of prudential supervision (which amended Directive 77/780/EEC, dated 12 December and Directive 89/646/EEC, dated 15 December in the field of Credit Institutions as well as the Council Directive 96/13/EC, dated 11 March, in respect of the list of permanent exclusion of certain credit institutions, which also amended Directive 77/780/EEC.

These changes to the banking environment have increased competition in the Portuguese banking market and have led to an expansion of domestic branch networks and an extension of the range of bank products offered. In addition, the possibilities for expansion, in terms of both geography and business activity, have been enhanced.

Since 1997, the Portuguese financial sector has benefited from significant economic growth, exchange rate stability and falling inflation and interest rates. It was confirmed in May 1998 by the European Union that the Portuguese Republic has met the necessary criteria for participation in EMU, and accordingly the Portuguese Republic participated at the commencement of the third stage of EMU on 1 January, 1999. The estimated average inflation rate in October 2005 was 2.3 per cent. on an annualised basis. The budget deficit accounted for 2.9 per cent. of gross domestic product (**GDP**) as at December 2004, and the total public debt represented 59.4 per cent. of GDP (as of December 2004).

Against the background of this rapid liberalisation, Portuguese banks have had to operate in an increasingly competitive environment. This has been characterized by a number of mergers between Portuguese banks, broader and more balanced geographic coverage of bank branch networks, more cross-selling initiatives, increased focus on the expanding market for personal loans, mortgages and

credit cards, more frequent advertising campaigns, competitive pricing strategies and cost control programmes.

The Group faces intense competition in all of its principal areas of operation; however, competitors in the Portuguese banking market have the most significant effect on the Group's results and operations. The Group's competitors in the Portuguese banking markets are Portuguese state and privately owned commercial banks, savings and investment banks, foreign banks (many of which have recently entered the Portuguese market) and non-deposit-taking financial institutions (investment companies). The Portuguese banking industry has been characterised by increasing consolidation through mergers and acquisitions by the major Portuguese banks. This consolidation began in 1995 with the acquisition of Banco Português do Atlantico (**BPA**) by Banco Comercial Português (**BCP**), and ended with the mergers between BCP, BPA and Banco Mello.

Meanwhile, following the Portuguese government's rejection of the initial deal between the Champalimaud Group (consisting of Banco Pinto e Sotto Mayor (**BPSM**), Banco Totta & Açores (**BTA**), and Crédito Predial Português (**CPP**) and Banco Santander Central Hispano (**BSCH**)), a new agreement was reached. This agreement has resulted in the acquisition of BTA and CPP by BSCH and the sale of BPSM, to BCP, in an auction process.

The remaining banks are Banco BPI, S.A., which resulted from the merger between Banco de Fomento Exterior, S.A., Banco Borges e Irmão, S.A., and Banco Fonsecas & Burnay, S.A., and holds an investment banking unit as well and Banco Espírito Santo (**BES**), which controls Banco Internacional de Crédito S.A., and Banco Espírito Santo de Investimento S.A.

In terms of net assets as of 31 December 2003, the main banks held the following market shares: CGD (24 per cent.), BCP (22 per cent.), Banco Espirito Santo, S.A. (14 per cent.), Banco BPI, S.A., (8.5 per cent.) and Banco Santander Central Hispano (9 per cent.).

Development of investment banking activity has been actively encouraged by the Portuguese authorities in order to foster modernisation and competition within the financial sector. In addition, liberalisation of officially set interest rates and credit ceilings has increased the competition for both deposits and loans within the Portuguese banking system. Under current law, all Portuguese financial institutions are now permitted to perform all types of financial services. Since 1993, EU banking directives have allowed cross-border reciprocity with EU countries for any bank formed within the EU.

Banking Regulation in Portugal

Summary

The Bank of Portugal which became a member of the European System of Central Banks on 1 June, 1998, enjoys extensive supervisory and regulatory powers in relation to all credit and deposit taking institutions in Portugal. In order to guarantee the stability and the soundness of the financial system and to ensure the efficiency of its operation, the safety of the depositors and the deposits, as well as the protection of consumers in the area of financial services, it is incumbent upon the Bank to supervise credit institutions and financial companies.

Moreover, according to the above mentioned Legal Framework of Credit Institutions and Financial Companies, it is specially incumbent upon the Bank of Portugal to authorise the setting up of credit institutions and financial companies when the decision is based solely on technical-prudential criteria, to monitor the activity of the institutions under its supervision, to control compliance with the rules set forth for their activities, to issue recommendations for the correction of any deviations, to sanction breaches, should they occur, and to take extraordinary measures of reorganisation.

Portuguese banks are subject to capital adequacy ratios in line with EC Directive 2000/12/EC of the European Parliament and the Council, dated 20 March relating to the taking up and pursuit of the business of credit institutions and which sets forth rules regarding the establishment of common standards for measurement of capital, risk weighted assets and commitments. However, there are some minor differences between EC requirements and the Bank of Portugal's approach, the latter imposing more onerous requirements in respect of the treatment of overdue loan losses and pension fund provisions.

There are specific regulations regarding regular audits by the Bank of Portugal, a specified accounting plan, limits on large exposures, minimum levels of provisions for loan losses and mandatory contribution to the deposit guarantee fund. Compliance is monitored through periodic inspections and regular reviews of financial statements and returns.

Application to the Group and the Issuer

The Banco Espirito Santo Group is regulated on a consolidated basis by the Bank of Portugal. The Group must comply with the regulations issued by the Bank of Portugal and the general regime governing credit institutions and financial companies under the **New Banking Law** of December 1992. The principal rules which must be complied with include the following:

(a) *Solvency Ratio.* The Group's own funds must correspond to at least 8 per cent. of its total risk-weighted assets and off-balance-sheet contingent liabilities and Tier I must not be less than 4 per cent. of this amount.

(b) *Limitations on credit risk concentration.* Exposure is classified as a large exposure where the liabilities of a counterparty (or such counterparty's group) represent 10 per cent. or more of the Group's own funds. The total exposure of the Group to a counterparty (or such counterparty's group) cannot exceed 25 per cent. of the Group's own funds and the global value of large exposures cannot be greater than 8 times the amount of such own funds.

(c) *Limitations on equity participations in relation to own funds.* The direct and indirect equity participation held by the Group in the share capital of entities other than credit institutions, financial companies, financial institutions, management companies of pension funds and insurance companies cannot exceed 15 per cent. (individually) and 60 per cent. (in aggregate) of the Group's own funds.

(d) *Limitations on participating interests in relation to the share capital of certain companies.* The direct and indirect participating interests to be held for three years or more by a Credit Institution in non-financial entities are limited to 25 per cent. of the voting rights in the share capital of such non-financial entities.

(e) *Fixed assets.* The global value of fixed assets (net of depreciation and provisions) excluding the elements deducted to calculate the Group's own funds cannot exceed the value of those funds.

(f) *Limitation on the share portfolio and other equities not classified as participating interests.* The total value of shares or other equities of any entity not classified as participating interests cannot exceed 40 per cent. of the own funds of the Group.

BES INV is, in addition to the Group, regulated on an individual basis by the Bank of Portugal under Notices (Avisos) no. 12/92, no. 1/93, no. 10/94 and no. 7/96 of the Bank of Portugal, as amended. In contrast to the Group's solvency ratio, the individual solvency ratio is indicative rather than compulsory, affording BES INV a degree of flexibility provided that the consolidated solvency ratio for the Group is maintained in accordance with the Bank of Portugal regulations. Despite this flexibility BES INV's consolidated solvency ratio on 31 December 2005 was 12.09 per cent. (12.86 per cent. on an individual basis).

SUMMARY FINANCIAL STATEMENTS OF THE PARENT

The following information is extracted without material adjustment from the audited consolidated annual Financial Statements of the Parent as at 31 December 2005 as prepared under International Financial Reporting Standards (**IFRS**).

International Financial Reporting Standards (**IFRS**) as endorsed by the European Commission have been applied in the preparation of the consolidated financial statements of BES INV from 1 January 2005.

AUDITED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005 AND 2004

	2005	2004
	(in thousands of euros)	
Assets		
Cash and deposits at Central Banks	2,772	4,230
Deposits with Banks	19,863	5,304
Financial assets at fair value through profit or loss	735,995	705,464
Available-for-sale financial assets	250,206	236,939
Loans and advances to banks	976,278	887,992
Loans and advances to customers	962,245	618,257
Hedging derivatives	23,558	2,196
Non-current assets held for sale	157,536	—
Property and equipment	5,832	5,855
Intangible assets	12,738	1,530
Investments in associates	13,529	2,025
Current income taxes	3,980	5,041
Deferred income tax assets	18,370	1,592
Other assets	429,664	145,152
Total assets	3,612,566	2,621,577
Liabilities		
Financial liabilities at fair value through profit or loss	307,514	309,060
Deposits from banks	401,083	693,493
Due to customers	1,414,201	1,008,591
Debt securities issued	665,984	193,089
Hedging derivatives	27,434	630
Non-current liabilities held for sale	112,428	—
Provisions	4,750	2,948
Current income tax liabilities	25,284	10,060
Deferred income tax liabilities	673	673
Subordinated debt	99,309	57,028
Other liabilities	304,250	139,307
Total liabilities	3,362,910	2,414,879
Equity		
Share capital	70,000	70,000
Share premium	8,796	8,796
Fair value reserve	4,527	—
Other reserves and retained earnings	76,828	81,004
Profit for the year	50,019	42,817
Total equity attributable to equity holders of the Bank	210,170	202,617
Minority interests	39,486	4,081
Total equity	249,656	206,698
Total equity and liabilities	3,612,566	2,621,577

AUDITED CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2005 AND 2004[(2)]

	2005	2004
	(in thousands of euros)	
Interest and similar income	146,748	73,171
Interest expense and similar charges	125,985	60,350
Net interest income	20,763	12,821
Dividend income	1,790	3,862
Fee and commission income	40,966	42,780
Fee and commission expense	(10,405)	(15,968)
Net gains from financial assets at fair value through profit or loss	(20,610)	160,749
Net gains from available-for-sale financial assets	(288)	14,948
Net gains from foreign exchange differences	51,045	(132,181)
Other operating income	30,946	30,236
Operating income	114,207	117,247
Staff costs	38,109	36,211
General and administrative expenses	23,342	20,289
Depreciation and amortisation	2,113	2,378
Provisions net of reversal	390	(5,470)
Loans impairment net of reversals	8,345	5,744
Impairment on other financial assets net of reversals	(2,391)	1,673
Impairment on other assets net of reversals	(989)	276
Operating expenses	68,919	61,101
Gains on disposal of investments in subsidiaries and associates	12,346	704
Share of profits of associates	(7)	14
Profit before income tax	57,627	56,864
Income tax		
Current tax	25,342	13,713
Deferred tax	(17,730)	(50)
	7,612	13,663
Profit for the year	50,015	43,201
Attributable to equity holders of the Bank	50,019	42,817
Attributable to minority interest	(4)	384
	50,015	43,201

Note:
(2) Cf. Note (1) to Consolidated Balance Sheets as at 31 December 2004.

TAXATION

Irish Taxation

The following is a general summary of the Issuer's understanding of the current law and practice in Ireland relating to the taxation of Notes issued under their Programme. The summary relates only to the position of the persons who are the absolute beneficial owners of Notes and the interest on them and some aspects may not apply to certain classes of taxpayers (such as dealers). Any Noteholders who are in any doubt as to their tax position should seek their own professional advice.

Irish Withholding Tax on the Notes

In general, withholding tax at the rate of 20 per cent. must be deducted from payments of yearly interest within the charge to Irish tax. This includes interest payments made by a company that is resident in Ireland for the purposes of Irish tax (**Irish Resident**) such as the Issuer. For this purpose, interest includes any uplift in principal on redemption of Indexed Notes. No withholding for or on account of Irish income tax will be required to be made from interest arising on the Notes in a number of circumstances.

1. Payments of interest in respect of the Notes will be made without deduction of withholding tax where the maturity of the Notes is less than one year because the interest is not yearly interest.

2. No Irish withholding tax will apply to interest payments on the Notes after 2 February 2006 where the Notes are:

   (a) quoted on a recognised stock exchange;

   (b) carry a right to interest (thus excluding Zero Coupon Notes); and

   (c) either;

      (i) interest payments are made by a paying agent not in Ireland; or

      (ii) the Notes are held in a recognised clearing system (Clearstream Banking SA, and Euroclear have been so recognised), or

      (iii) the person who is the beneficial owner of the Notes and who is beneficially entitled to the interest is not Irish Resident and has made a declaration to a relevant person in a form specified by the Irish Revenue Commissioners.

   In the case of interest paid on or before 2 February 2006, the exemption from the obligation to withhold tax applied only to Notes in bearer form. The Irish Revenue Commissioners have confirmed that Notes will be regarded as in bearer form for the purpose of this withholding tax exemption, notwithstanding that they are represented by a single global Note held by Euroclear and/or Clearstream, Luxembourg. The Irish Revenue Commissioners have also confirmed that definitive bearer Notes issued in exchange for interests in global Notes will continue to be regarded as held within a recognised clearing system for the purpose of (c)(ii) above.

3. Irish withholding taxes will not be deducted from interest payments made to persons whose usual place of abode is outside Ireland on the Notes in the course of carrying on the trading operations specified in the certificate that was issued to it under section 446 of the Taxes Consolidation Act, 1997, as amended (**TCA 1997**), its "IFSC Certificate", notwithstanding the fact that the IFSC Certificate expired on 31 December 2005. This is provided that the Notes were issued in the course of the Issuer carrying on trading operations certified under section 446 TCA 1997, its "IFSC Trade" (i.e. before expiry of the IFSC Certificate on 31 December 2005) on terms which oblige the Issuer to redeem the Notes within a period of 15 years after the date on which the Notes were issued. The Irish Revenue Commissioners have confirmed that holders of unlisted bearer Notes will be regarded as having their place of abode outside of Ireland provided that (i) interest is paid on the Notes through a paying agent located outside of Ireland; (ii) the Notes have a minimum denomination of €500,000 or its equivalent; (iii) the Notes are cleared through a

recognised clearing system; and (iv) certain restrictions apply in relation to the sale of the Notes in Ireland. The required restrictions in relation to the sale of the Notes in Ireland are included in the Offering Circular and in the Programme Agreement.

4. Under the provisions of section 246A TCA 1997, the Issuer will not be required to deduct Irish withholding tax from interest paid in respect of Exempted Wholesale Debt Instruments which are Notes where:

   (a) the Notes;

      (i) recognise an obligation to pay a stated amount; and

      (ii) mature within two years; and

      (iii) carry a right to interest; or

      (iv) are issued at a discount; or

      (v) are issued at a premium; and

   (b) the Notes are held in a recognised clearing system in denominations of not less than US$500,000 or €500,000, or if denominated in any currency other than US dollar or euro, the equivalent of €500,000 at the date the programme is first publicised that; or

   (c) the person by whom, or the person through whom the payment is made is Irish Resident or the payment is made by an Irish branch or agency of that person; and

      (i) the person beneficially entitled to the interest is Irish Resident and has provided their Irish tax reference number to the Issuer; or

      (ii) the person who is the beneficial owner of the Notes and who is beneficially entitled to the interest is not Irish Resident and has made the appropriate declaration of non- residence to the Issuer.

5. There is no requirement for the Issuer to deduct Irish withholding tax from interest payments made on the Notes in the ordinary course of the Issuer's trade or business to a company that is a tax resident of a territory with which Ireland has a double taxation treaty that is in effect, or in a Member State of the European Communities (other than Ireland) under the laws of that Member State or territory as the case may be. This exemption from withholding tax will not apply, however, if the interest is paid to a company in connection with a trade or business which is carried on in Ireland by that company through a branch or agency.

Irish withholding tax on interest in respect of the Notes may be avoided or reduced pursuant to the provisions of an appropriate double taxation treaty.

In all other cases interest will be paid under deduction of Irish income tax (calculated at the standard rate of Irish income tax, which is currently 20 per cent.).

The Irish Revenue Commissioners have confirmed that any discounts arising on the Notes will not be subject to Irish withholding tax.

Encashment tax

If interest on a Note satisfies the conditions for exemption from Irish withholding tax at 2 above and it is paid or realised by an agent in Ireland on behalf of a Noteholder, the agent will be required to withhold tax at the standard rate of Irish income tax (currently 20 per cent.) unless it is proved, on a claim made in the required manner to the Irish Revenue Commissioners, that the person owning such Notes and entitled to such interest is not Irish Resident. It is also necessary that such interest is not deemed under the provisions of Irish tax legislation to be income of another person that is Irish Resident.

Irish Source Income

Noteholders who are not Irish Resident (nor ordinarily resident in Ireland for purposes of Irish tax (**Ordinarily Resident**) in the case of persons who are not companies) and who do not carry on

business in Ireland through a branch, agency or a permanent establishment to which, or to whom the Notes are attributable will in relation to payments on or arising from the Notes, not be liable to;

(a) Irish corporation tax;

(b) Irish income tax (provided they fall within an exemption below); or

(c) Irish capital gains tax provided that either the Notes are quoted on a stock exchange or they do not derive their value or a greater part of their value from certain specified assets (e.g. Irish land or mineral rights).

Section 198 TCA 1997 provides that a company that is not Irish Resident will not be chargeable to Irish income tax in respect of interest (including any uplift in principal on redemption of indexed redemption Notes) paid by the Issuer that satisfies the conditions of the exemption from Irish withholding tax at 3 above. For individuals to qualify for this exemption, they must not be Ordinarily Resident. A person who has been Irish Resident for three consecutive tax years becomes Ordinarily Resident with effect from the commencement of the fourth tax year that they are Irish Resident. A person who has been Ordinarily Resident is no longer Ordinarily Resident with effect from the commencement of the fourth consecutive tax year in which they are not Irish Resident.

There is also an exemption from Irish income tax under Section 198 TCA, 1997 for interest paid by any Irish company in the ordinary course of its trade or business to a company which is not Irish Resident and which is resident in a member state of the European Communities (other than Ireland) under the laws of that Member State or is a resident of a territory with which Ireland has a double taxation treaty under the provisions of that treaty.

Section 198 TCA, 1997 also exempts interest paid to persons who are not Irish Resident and who are resident in a Member State of the European Communities (other than Ireland) under the laws of that Member State or is a resident of a territory with which Ireland has a double taxation treaty under the provisions of that treaty and the interest satisfies the conditions for exemption from Irish withholding tax at 2 above.

Irish tax on interest and discount in respect of the Notes may be avoided or reduced pursuant to the provisions of an appropriate double taxation treaty.

Interest payments and discounts realised, which do not fall within the exemptions outlined above, will be subject to Irish income tax. However, there is no mechanism by which the Irish Revenue Commissioners may collect this Irish income tax liability, where:

(a) the Noteholder is not Irish Resident;

(b) the Noteholder is not chargeable in the name of a person (including a trustee) or in the name of an agent or branch in Ireland having the management or control of the discount; and

(c) the Noteholder is not liable to Irish corporation tax on income from an Irish branch or agency or to Irish income tax on the profits of a trade carried on in Ireland, to which the discount is attributable.

For this reason the liability is not in practice generally enforced. However, there is a statutory obligation to account for Irish tax on a self-assessment basis and there is no requirement for the Irish Revenue Commissioners to issue or raise an assessment.

Capital Acquisitions Tax

Provided the Notes continue to be in bearer form, a gift or inheritance of Notes may give rise to a liability to Irish capital acquisitions tax in the hands of the donee or successor, if:

(a) the Notes which are the subject of the disposition are physically located in Ireland with a depository or otherwise; or

(b) the disponer or the donee or successor is either Irish Resident or Ordinarily Resident at the date of the gift or inheritance.

For the purposes of Irish capital acquisitions tax, a non-Irish domiciled person will not be treated as Irish Resident or Ordinarily Resident except where that person has been Irish Resident for

the five consecutive years of assessment immediately preceding the year of assessment in which the date of the gift or inheritance falls.

Irish capital acquisitions tax is payable at the rate of 20 per cent. on the taxable value of a gift or inheritance.

Stamp Duty

No Irish stamp duty will be payable on the issue of the Notes provided such Notes do not represent a charge or incumbrance on property situated in Ireland. If stamp duty is payable it will be limited to a nominal charge.

Irish stamp duty is not chargeable on the transfer by delivery of Notes. In the event of a written transfer of Notes no Irish stamp duty is chargeable provided that the Notes:

(a) do not carry a right of conversion into stocks or marketable securities (other than loan capital) of a company having a register in Ireland or into loan capital having such a right,

(b) do not carry rights of the same kind as shares in the capital of a company, including rights such as voting rights, a share in the profits or a share in the surplus upon liquidation,

(c) are redeemable within 30 years of the date of issue and not thereafter,

(d) are issued for a price which is not less than 90 per cent. of their nominal value (e.g. Notes issued at a discount such as Zero Coupon Notes may not qualify for this exemption), and

(e) do not carry a right to a sum in respect of repayment or interest which is related to certain movements in an index or indices specified in any instrument or other document relating to the Notes (thus the Indexed Notes would be excluded from this exemption).

No stamp duty will be payable on redemption of the Notes.

Where an exemption does not apply, a written transfer of a Note (wherever executed) is liable to Irish stamp duty at the rate of 1 per cent. of the consideration paid under the transfer (or, if greater, the market value of the Note).

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

The Directive has been enacted into Irish legislation. Since 1 January 2004, where any person in the course of a business or profession carried on in Ireland makes an interest payment (which would include any payments of interest or similar income if made by the Irish Paying Agent) to, or secures an interest payment for the immediate benefit of, the beneficial owner of that interest, where that beneficial owner is an individual, that person must, in accordance with the methods prescribed in the legislation, establish the identity and residence of that beneficial owner. Where such a person makes such a payment to a ''residual entity'' then that interest payment is a ''deemed interest payment'' of the ''residual entity'' for the purpose of this legislation. A ''residual entity'', in relation to ''deemed interest payments'', must, in accordance with the methods prescribed in the legislation, establish the identity and residence of the beneficial owners of the interest payments received that are comprised in the ''deemed interest payments''.

Residual entity means a person or undertaking established in Ireland or in another Member State or in an ''associated territory'' to which an interest payment is made for the benefit of a beneficial owner that is an individual, unless that person or undertaking is within the charge to

corporation tax or a tax corresponding to corporation tax, or it has, in the prescribed format for the purposes of this legislation, elected to be treated in the same manner as an undertaking for collective investment in transferable securities within the meaning of the UCITS Directive 85/611/EEC, or it is such an entity or it is an equivalent entity established in an ''associated territory'', or it is a legal person (not being an individual) other than certain Finnish or Swedish legal persons that are excluded from the exemption from this definition in the Directive on the Taxation of Savings Income.

Procedures relating to the reporting of details of payments of interest (or similar income) made by any person in the course of a business or profession carried on in Ireland, to beneficial owners that are individuals or to residual entities resident in another Member State or an ''associated territory'' and procedures relating to the reporting of details of deemed interest payments made by residual entities where the beneficial owner is an individual resident in another Member State or an ''associated territory'' apply since 1 July 2005. For the purposes of these paragraphs ''associated territory'' means Aruba, Netherlands Antilles, Jersey, Gibralter, Guernsey, Isle of Man, Anguilla, British Virgin Islands, Cayman Islands, Montserrat and Turks and Caicos Islands Andorra, Liechtenstein, Monaco, San Marino and the Swiss Confederation.

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Interest on the Notes

Payments of interest on the Notes may be made without withholding on account of United Kingdom income tax.

Noteholders who are individuals may wish to note that HM Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. HM Revenue and Customs also has power to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005, to or receives such amounts for the benefit of, an individual although HM Revenue and Customs published practice indicates that HM Revenue and Customs will not exercise the power referred to above to require this information in respect of such amounts payable on redempton of Notes where such amounts are paid on or before 5 April 2007. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HM Revenue and Customs with the tax authorities of other jurisdictions.

SUBSCRIPTION AND SALE

The Dealers have in a programme agreement dated 23rd April, 1999, (as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) agreed with the Issuer and the Parent a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under **Form of the Notes** and **Terms and Conditions of the Notes** above. In the Programme Agreement, the Issuer and the Parent have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or deliver Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part as determined and certified by the Agent to such Dealer(s), within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each issue of Indexed Notes and Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer shall agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms. Each relevant Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, **a Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in

another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression **an offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(i) in relation to any Notes having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Parent; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the **Securities and Exchange Law**) and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

Germany

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the Federal Republic of Germany other than in compliance with the German Securities Selling Prospectus Act (Wertpapiervekaufsprospektgesetz) of 13th December, 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

Ireland

Each Dealer has represented and agreed (and each further Dealer appointed under the Programme will be required to further represent and agree) that it has complied and will comply with all applicable provisions of the Investment Intermediaries Act, 1995 (as amended) of Ireland with respect to anything done by it in relation to the Notes if operating in, or otherwise involving, Ireland.

Portugal

Each Dealer has represented and agreed that:

(a) no document, circular, advertisement or any offering or gathering investment intentions material in relation to any Notes has been approved by the Portuguese Securities Market Commission (*Comissao do Mercado de Valores Mobiliários,* the **CMVM**);

(b) it has not advertised, offered, invited to subscribe for, gathered investment intentions, distributed or sold and will not, directly or indirectly, advertise, offer, invite to subscribe for, gather investment intentions, distribute or sell the Notes in circumstances which could qualify as a public offer (*oferta pública*) of securities pursuant to the Portuguese Securities Code (*Código dos Valores Mobiliários, the* CVM) and/or in circumstances which would qualify as an issue or public placement of securities in the Portuguese market or to any entities which are resident in Portugal;

(c) all offers, sales and distributions of the Notes have been and will be made in Portugal in circumstances that, pursuant to the CVM, qualify as a private placement of Notes (*oferta particular*), all in accordance with the CVM; and

(d) any public offer of Notes pursuant to the CVM is subject to previous registration before the CMVM. Pursuant to the CVM, the private placement in Portugal or with Portuguese residents of Notes is subject to subsequent notification to the CMVM for statistical purposes.

Each Dealer represents and agrees that it shall comply with all applicable laws and regulations in force in Portugal and with the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, regarding the placement of any Notes in the Portuguese jurisdiction or to any entities which are resident in Portugal, including the publication of a Prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

The Netherlands

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months and a denomination of less than €50,000 will only be offered in The Netherlands in circumstances where another exemption or a dispensation from the requirement to make a prospectus publicly available has been granted under Article 4 of the Securities Transaction Supervision Act 1995 ("*Wet toezicht effectenverkeer 1995*").

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval

or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The update of the Programme and the issue of Notes have been duly authorised by a resolution of the Executive Committee of the Issuer dated 22 September, 2006 and the entering into of the Keep Well Agreement has been duly authorised by a resolution of the Board of Directors of the Issuer dated 11 November 2005 and by a resolution of the Executive Committee meeting of the Parent dated 10 November 2005.

Listing of Notes

Application has been made to the Financial Regulator, as competent authority under the Prospectus Directive, for the Offering Circular to be approved. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any member state of the European Economic Area. Application has been made to the Irish Stock Exchange for such Notes to be admitted to the Official List and to trading on its regulated market.

However, Notes may be issued pursuant to the Programme which will not be admitted to listing on the Irish Stock Exchange or any other listing authority, stock exchange or quotation system or which will be admitted to listing, trading or quotation on such listing authority, stock exchange or quotation system as the Issuer and Dealer(s) may agree.

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection, in physical and electronic form, from the registered office of the Issuer and from the specified office of the Agent in London and the Paying Agent in Ireland:

(i) the constitutional documents of the Issuer and the constitutional documents (with an English translation thereof) of the Parent;

(ii) the auditors' report and the audited consolidated annual financial statements of the Parent in respect of the financial years ended 2004 and 2005;

(iii) the auditors' report and the audited annual financial statements of the Issuer in respect of the years ended 31 December 2004 and 31 December 2005;

(iv) the auditors' report and the balance sheet, profit and loss account, cash flow statement and accounting policies and explanatory notes of the Issuer in respect of the years ended 31 December 2004 and 31 December 2005;

(v) the most recently published audited annual and interim financial statements (if any) of the Parent and the Issuer;

(vi) the Programme Agreement, the Agency Agreement and the Trust Deed which contains the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Notes, the Receipts, the Coupons and the Talons, and the Keep Well Agreement;

(vii) a copy of this Offering Circular;

(viii) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms for Notes that are listed on the Irish Stock Exchange and admitted to trading by the Irish Stock Exchange (save that the Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer or the Agent, as the case may be, as to its holding and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and

(ix) each subscription agreement (or equivalent document) for Notes that are admitted to trading on the Irish Stock Exchange's Official List.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brusssels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

Save as disclosed in this Offering Circular on pages 60, 69 to 72 and 73 there has been no significant change in the financial or trading position of the Issuer since 31 December 2005 or the Parent and/or its subsidiaries since 31 December 2005 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2005, the date of the last published audited annual accounts of the Issuer or in the financial position or prospects of the Parent and/or its subsidiaries since 31 December 2005, the date of the last published audited annual accounts of the Parent and/or its subsidiaries.

Litigation

Neither the Issuer, the Parent nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Parent are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, the Parent or the Group.

Auditors

The auditors of the Issuer were PricewaterhouseCoopers, Dublin, (Chartered Accountants and members of the institute of chartered accountants in Ireland) who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in Ireland for each of the financial periods ending 30th November, 1997, 1998, 1999, 2000 and 2001 respectively. The auditors of the Issuer from 13 November 2002 were KPMG (members of the Institute of Chartered Accountants in Ireland) who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in Ireland for each of the financial periods ending 30 November 2002, 31 December 2003, 2004 and 2005 respectively and who will audit the Issuer's accounts for the current financial year.

The auditors of the Issuer have given, and have not withdrawn, in writing, their consent to (i) the incorporation by reference into the Offering Circular of its report on the balance sheet, profit and loss account, cash flow statement, accounting policies and explanatory notes of the Issuer for the financial periods ending 31 December 2004 and 2005, and (ii) the references in this Offering Circular to their name, in the form and context in which it appears, and have authorised those parts of the Offering Circular for the purposes of section 45 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland.

The auditors of the Parent for statutory and stockmarket reporting purposes are Amável Calhau, Ribeiro da Cunha e Associados, who have audited the Parent's accounts, without qualification, in accordance with generally accepted auditing standards in Portugal for the financial

periods ended 31 December, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004 and 2005. Amável Calhau, Ribeiro da Cunha e Associados are members of the Parent's Audit Committee.

The independent auditors of the Parent for annual reporting purposes (not statutory or stock market reporting purposes) were PricewaterhouseCoopers, Lisbon, (Chartered Accountants) who have audited the Parent's accounts, without qualification, in accordance with International Standards on Auditing for the financial periods ended 31 December, 1997, 1998, 1999, 2000, 2001 and 2002. The auditors of the Parent from 4 July 2002 were KPMG Auditors (Chartered Accountants), who have audited the Parent's accounts, without qualification, in accordance with International Standards on Accounting for each of the financial periods ended 31 December 2002 and 2003, respectively, and who will audit the Parent's account for the next financial year.

The Trust Deed provides that any certificate or report of the auditors of the Issuer or the Parent or any other person called for by or provided to the Trustee in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein whether or not such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of such auditors or such other person in respect thereof.

Material contracts

There are no material contracts having been entered into outside the ordinary course of the business of the Issuer and which could result in any group member being under an obligation or entitlement that is material to the ability of the Issuer to meet its obligations to holders of Notes.

Save as discussed in the applicable Final Terms, so far as the Issuer is aware, no person involved in the offer of Notes has an interest material to the offer.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Note.

Companies (Amendment) Act, 1986 of Ireland

The financial information in relation to the Issuer contained in this document does not constitute full accounts within the meaning of Section 19 of the Companies (Amendment) Act, 1986 of Ireland. Full accounts of the Issuer have been prepared for each financial year to which the financial information relates and the auditors have given unqualified reports on such accounts which have been annexed to the relevant annual returns delivered to the Registrar of Companies in Ireland.

Websites

No website referred to in this Offering Circular forms part of this Offering Circular.

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Annex 1

Auditors' report and audited financial statements for the financial year ended December 2005 of the Parent

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CORPORATE GOVERNANCE REPORT

1.
Consolidated Financial Statements

1.1
Consolidated Income Statement for the years ended 31 December 2005 and 2004

Thousands of euros

	Notes	31.12.2005	31.12.2004
Interest and similar income	5	146,748	73,171
Interest expense and similar charges	5	125,985	60,350
Net interest income		**20,763**	**12,821**
Dividend Income		1,790	3,862
Fee and commission income	6	40,966	42,780
Fee and commission expense	6	(10,405)	(15,968)
Net gains from financial assets at fair value through profit or loss	7	(20,610)	160,749
Net gains from available-for-sale financial assets	8	(288)	14,948
Net gains from foreign exchange differences	9	51,045	(132,181)
Other operating income		30,946	30,236
Operating income		**114,207**	**117,247**
Staff costs	10	38,109	36,211
General and administrative expenses	12	23,342	20,289
Depreciation and amortisation	22 and 23	2,113	2,378
Provisions net of reversals	29	390	(5,470)
Loans impairment net of reversals	19	8,345	5,744
Impairment on other financial assets net of reversals	17 and 18	(2,391)	1,673
Impairment on other assets net of reversals	25	(989)	276
Operating expenses		**68,919**	**61,101**
Gains on disposal of investments in subsidiaries and associates	24	12,346	704
Share of profit of associates	24	(7)	14
Profit before income tax		**57,627**	**56,864**
Income tax			
Current tax	30	25,342	13,713
Deferred tax	30	(17,730)	(50)
		7,612	13,663
Profit for the year		**50,015**	**43,201**
Attributable to equity holders of the Bank		**50,019**	**42,817**
Attributable to minority interest		**(4)**	**384**
		50,015	**43,201**
Earnings per share of profit attributable to the equity holders of the Bank			
Basic (in Euros)	13	3.57	3.06
Diluted (in Euros)	13	3.57	3.06

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

The Chief Accountant

The Board of Directors

1.2
Consolidated Balance Sheet as at 31 December 2005 and 2004

Thousands of euros

	Notes	31.12.2005	31.12.2004
Assets			
Cash and deposits at central banks	14	2,772	4,230
Deposits with ,banks	15	19,863	5,304
Financial assets at fair value through profit or loss	16	735,995	705,464
Available-for-sale financial assets	17	250,206	236,939
Loans and advances to banks	18	976,278	887,992
Loans and advances to customers	19	962,245	618,257
Hedging derivatives	20	23,558	2,196
Non-current assets held ,for sale	21	157,536	-
Property and equipment	22	5,832	5,855
Intangible assets	23	12,738	1,530
Investments in associates	24	13,529	2,025
Current income tax assets		3,980	5,041
Deferred income tax assets	30	18,370	1,592
Other assets	25	429,664	145,152
Total assets		**3,612,566**	**2,621,577**
Liabilities			
Financial liabilities at fair value through profit or loss	16	307,514	309,060
Deposits from banks	26	401,083	693,493
Due to customers	27	1,414,201	1,008,591
Debt securities issued	28	665,984	193,089
Hedging derivatives	20	27,434	630
Non-current liabilities held for sale		112,428	-
Provisions	29	4,750	2,948
Current income tax liabilities		25,284	10,060
Deferred income tax liabilities	30	673	673
Subordinated debt	31	99,309	57,028
Other liabilities	32	304,250	139,307
Total liabilities		**3,362,910**	**2,414,879**
Equity			
Share capital	33	70,000	70,000
Share premium	33	8,796	8,796
Fair value reserve	34	4,527	-
Other reserves and retained earnings	34	76,828	81,004
Profit for the year		50,019	42,817
Total equity attributable to equity holders of the Bank		**210,170**	**202,617**
Minority interests		39,486	4,081
Total equity		**249,656**	**206,698**
Total equity and liabilities		**3,612,566**	**2,621,577**

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

The Chief Accountant

The Board of Directors

1.3
Consolidated Cash Flow Statement for the years ended 31 December 2005 and 2004

Thousands of euros

	Notes	31.12.2005	31.12.2004
Cash flows arising from operating activities			
Interest and similar income received		144,673	429,183
Interest expense and similar charges paid		(107,380)	(375,224)
Fee and commission income received		78,627	42,780
Fee and commission expense paid		(10,405)	(26,812)
Cash payments to employees and suppliers		(59,512)	(56,912)
		46,003	**13,015**
Changes in operational assets and liabilities:			
Cash and deposits at central banks		1,461	(621)
Financial assets at fair value through profit or loss		(52,687)	(201,006)
Loans and advances to banks		(88,246)	245,001
Deposits from banks		(291,996)	369,031
Loans and advances to customers		(350,969)	(202,857)
Due to customers		387,549	(99,606)
Hedging derivatives		(5,850)	-
Other operational assets and liabilities		(168,051)	21,740
Net cash flow from operating activities before income taxes		**(522,786)**	**144,697**
Income taxes paid		(9,057)	(1,288)
Net cash flow arising from operating activities		**(531,843)**	**143,409**
Cash flows arising from investing activities			
Acquisition of subsidiaries and associates		(1,008)	(267)
Disposal of subsidiaries and associates		11,987	711
Dividends received		1,790	3,862
Acquisition of available-for-sale financial assets		(70,455)	(97,081)
Sale of available-for-sale financial assets		87,744	56,176
Acquisition of tangible and intangible assets		(13,114)	(2,585)
Sale of tangible and intangible assets		347	1,005
Net cash flow arising from investing activities		**17,291**	**(38,179)**
Cash flows arising from financing activities			
Proceeds from issue of cash bonds		581,319	152,847
Reimbursement of cash bonds		(115,855)	(244,101)
Proceeds from issue of subordinated debt		59,355	-
Reimbursement of subordinated debt		(19,952)	-
Dividends paid from ordinary shares		(31,272)	(18,795)
Net cash flow from financing activities		**473,595**	**(110,049)**
Effect of exchange rate changes on cash and cash equivalents		55,519	(196)
Net changes in cash and cash equivalents		**14,562**	**(5,015)**
Cash and cash equivalents at the beginning of the year		5,314	10,329
Cash and cash equivalents at the end of the year		19,876	5,314
		14,562	**(5,015)**
Cash and cash equivalents includes:			
Cash	14	13	10
Deposits with banks	15	19,863	5,304
Total		**19,876**	**5,314**

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

1.4
Statement of Changes in Consolidated equity for years ended 31 December 2005 and 2004

Thousands of euros

	Share capital	Share premium	Fair value reserve	Legal reserves other reserves and retained earnings	Profit for the year attributable to equity holders of the Bank	Total equity attributable to equity holders of the Bank	Minority interests	Total equity
Balance as at 1 January 2004 IFRS								
(excluding IAS 32 and IAS 39)	**70,000**	**8,796**	**-**	**66,679**	**26,826**	**172,301**	**5,687**	**177,988**
Dividends on ordinary shares (a)	-	-	-	(1,479)	(11,245)	(12,724)	-	(12,724)
Regulation nr. 4/2002 (see Note 2.6)	-	-	-	(1,251)	410	(841)	-	(841)
Exchange differences	-	-	-	1,064	-	1,064	(990)	74
Transfer to reserves	-	-	-	15,991	(15,991)	-	-	-
Changes in minority interests (see Note 34)	-	-	-	-	-	-	(1,000)	(1,000)
Profit for the year	-	-	-	-	42,817	42,817	384	43,201
Balance as at 31 December 2004 IFRS								
(excluding IAS 32 and IAS 39)	**70,000**	**8,796**	**-**	**81,004**	**42,817**	**202,617**	**4,081**	**206,698**
Effect of adoption of IAS 32 and IAS 39	-	-	2,385	(5,575)	-	(3,190)	-	(3,190)
Balance as at 1 January 2005 IFRS	**70,000**	**8,796**	**2,385**	**75,429**	**42,817**	**199,427**	**4,081**	**203,508**
Dividends on ordinary shares (a)	-	-	-	(7,825)	(36,967)	(44,792)	-	(44,792)
Changes in fair value, net of taxes	-	-	2,142	-	-	2,142	253	2,395
Exchange differences	-	-	-	3,374	-	3,374	973	4,347
Transfer to reserves	-	-	-	5,850	(5,850)	-	-	
Changes in minority interests (see Note 34)	-	-	-	-	-	-	34,183	34,183
Profit for the year	-	-	-	-	50,019	50,019	(4)	50,015
Balance as at 31 December 2005	**70,000**	**8,796**	**4,527**	**76,828**	**50,019**	**210,170**	**39,486**	**249,656**

(a) Corresponds to a dividend per share of 3.20 euros and 0.91 euros as at 31 December 2005 and 2004, respectively.
The following notes form an integral part of these financial statements.

2.
Notes to the consolidated financial statements as at 31 December 2005

Note_1
Activity and Group structure

Banco Espírito Santo de Investimento, S.A. (Bank or BESI) is an investment bank headquartered in Portugal, Rua Alexandre Herculano, n.º 38 in Lisbon. The Bank is authorized by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches are located.

The company was established in February 1983 as a foreign investment in Portugal under the name FINC– Sociedade Portuguesa Promotora de Investimentos, S.A.R.L. During 1986 the company was integrated into the Espírito Santo Group under the designation of Espírito Santo - Sociedade de Investimentos, S.A..

In order to enlarge the scope of its business, the company obtained permission from the Portuguese authorities to operate as an investment bank. This involved the publication of Order-in-Council no. 366/92, November 23, published in the Diário da República – Series II – no. 279, December 3. The activity as an investment bank started under the name Banco ESSI, S.A., on April 1, 1993.

During 2000, Banco Espírito Santo, S.A. (BES) acquired all of the share capital of BES Investimento in order to reflect in its consolidated accounts all the synergies generated by both institutions.

BESI currently operates through its headquarters in Lisbon, a branch in London and through its subsidiaries in Brazil, Ireland and Spain.

BESI financial statements are consolidated by Banco Espírito Santo, S.A., headquartered at Avenida da Liberdade, n.º 195, Lisbon and by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.

Group companies where the Bank has a direct or indirect holding greater or equal to 20%, over which the Group exercises control or has significant influence, and that were included in the consolidated financial statements, are as follows:

	Established	Accquired	Headquartered	Activity	% Economic Interest	Consolidation Method
BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A. (BESI)	1983	-	Portugal	Investment Banking		
ESSI Comunicações SGPS, S.A.	1998	1998	Portugal	Holding company	100%	Full Consolidation
ESSI SGPS, S.A.	1997	1997	Portugal	Holding company	100%	Full Consolidation
Concordia - Espírito Santo Investment	2005	2005	Poland	Services Provider	49%	Equity method
Espirito Santo Investimentos, S.A.	1996	1999	Brazil	Holding company	100%	Full Consolidation
Morumbi Capital Fund	2005	2005	Cayman Islands	Fund	100%	Full Consolidation (a)
BES Investimento do Brasil, S.A.	2000	2000	Brazil	Investment Banking	80%	Full Consolidation
BES Securities do Brasil, S.A.	2000	2000	Brazil	Brokerage house	80%	Full Consolidation
BES Activos Financeiros, Ltda	2004	2004	Brazil	Asset management	80%	Full Consolidation
Espírito Santo Capital - Sociedade de Capital de Risco, S.A. (ES CAPITAL)	1988	1996	Portugal	Venture Capital	100%	Full Consolidation
Sotancro, S.A.	1999	1999	Portugal	Glass packages	49%	Equity method
SES Iberia	2004	2004	Spain	Asset management	50%	Full Consolidation
Fomentinvest, SGPS, S.A.	2003	2003	Portugal	Holding company	20%	Equity method

Lontinium, S.A. (Norema)	2000	2000	Spain	Real estate/finance	26.30%	Equity method
HLC - Centrais de Cogeração, S.A.	1999	1999	Portugal	Services Provider	24.50%	Equity method
Coporgest S.A.	2002	2005	Portugal	Real estate/finance	20%	Equity method
Espírito Santo Investment, S.A.U., S.V.	2000	2000	Spain	Brokerage house	100%	Full Consolidation
Espírito Santo Investments PLC	1996	1996	Ireland	Investment company	100%	Full Consolidation
ESSI Investimentos SGPS, SA	1998	1998	Portugal	Holding company	100%	Full Consolidation
Kutaya	1999	1999	Portugal	Support services	100%	Full Consolidation
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	38.69%	Full Consolidation
LOG ESCIC, SGPS, S.A.	2005	2005	Portugal	Holding company	18.80%	Equity method (b)
Ropsoh - Unidades de Saúde SA	2005	2005	Portugal	Services Provider	80%	Full Consolidation
BRB Internacional, S.A	2001	2001	Spain	Entertainment	25%	Equity method
Prosport - Com. Desportivas, S.A.	2001	2001	Spain	Sporting goods trading	25%	Equity method
Apolo Films, SL	2001	2001	Spain	Entertainment	25%	Equity method
Cominvest- SGII, S.A.	1993	1993	Portugal	Real estate	25%	Equity method

a)Although the Group's economic interest is less than 50%, these companies were fully consolidated, as the Group exercises control over them.

b)Although the Group's economic interest is less than 20%, these companies were accounted for by the equity method, as the Group exercises a significant influence over them.

The main changes in BESI Group structure that occurred during 2005 are highlighted as follows:

- As at 03 January 2005, Espírito Santo Dealer – Sociedade Financeira de Corretagem, S.A. was merged into Banco Espírito Santo de Investimento, S.A.;
- Banco Espírito Santo de Investimento, S.A. (BESI) set-up Concordia Espírito Santo Investment (CESI), holding 49% of its share capital. CESI results from a joint venture with Concordia Sp., and develops its activity in Poland in the areas of advisory in Project Finance, Mergers & Acquisitions, and other Corporate Finance related advisory services;
- As at 12 September 2005, following the hedge funds management project launched by BESI in Brazil, Morumbi Capital Fund, a Cayman based company, was set-up. This company corresponds to an investment fund managed by Morumbi Capital, S.A., a BESI subsidiary. As at 31 December 2005, BESI had 25% of the fund units issued by Morumbi Capital Fund;
- During December 2005, ESSI Investimentos SGPS, S.A. sold its share holding in Jampur to ES Tech Ventures;
- As at 30 December 2005, ESSI SGPS, S.A. acquired the share holdings of BES and Gestres – Gestão Estratégica Espírito Santo, S.A in ES Capital. Therefore, from then on ES Capital is fully consolidated by BESI;
- As at 29 de December 2005, BESI acquired 80% of ROPSOH – Unidades de Saúde, S.A., share capital, a company established with Espírito Santo Saúde, S.A., in order to acquire 90% of Hospor – Hospitais Portugueses, S.A. equity (see note 21).

Note_2
Summary of significant account principles

2.1.
Basis of preparation

For all periods up to and including the year ended 31 December 2004, Banco Espírito Santo de Investimento, S.A. prepared its consolidated financial statements in conformity with generally accepted accounting principles in Portugal for the banking industry, as established by the Bank of Portugal.

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 2002 and Regulation no. 1/2005 from the Bank of Portugal, Banco Espírito Santo de Investimento, S.A. ("BESI" or "the Company") is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') from 2005. Therefore, from 1 January 2005 the consolidated financial statements of BESI are prepared in accordance with IFRS as adopted for use in the European Union ('EU').

IFRS comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

These consolidated financial statements for the year ended 31 December 2005 were prepared in accordance with the IFRS effective and adopted for use in the EU until 31 December 2005.

These consolidated financial statements are expressed in thousands of euros and have been prepared under the historical cost convention, as modified by the revaluation of derivative contracts, financial assets at fair value through profit or loss, available-for-sale financial assets, and recognised assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

The preparation of financial statements in conformity with IFRS requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the Group's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These financial statements were approved in the Board of Directors meeting held on 10 March 2006.

Transition to IFRS

In preparing these consolidated financial statements for the year ended 31 December 2005 and in determining the IFRS transition adjustments, the Group has elected to apply certain transition provisions within IFRS 1 – First-time Adoption of International Financial Reporting Standards, namely the exemptions on comparative financial information and on the retrospective application of IFRS.

The most significant of these provisions is the exemption from presenting comparative information in accordance with IAS 32 - Financial Instruments: Disclosure and Presentation, and IAS 39 - Financial Instruments: Recognition and Measurement. Therefore, comparative figures for 2004 include the financial instruments recognised and measured in accordance with the previous accounting policies of the Group which are described below. However, in order to allow for comparability, the values of financial instruments for the comparative period were reclassified to conform to the 2005 presentation.

Additionally, IFRS 1 grants certain exemptions from the retrospective application of IFRS. From the exemptions allowed, the Group has elected to adopt the following:

(i) Business combinations

The Group has elected not to apply IFRS 3 – Business Combinations retrospectively. Therefore, business combinations that took place prior to 1 January 2004 are accounted for in accordance with the previous accounting policies of the Group.

As a result, goodwill from acquisitions prior to 1 January 2004 is offset against reserves, in accordance with the previous accounting policies of the Group.

(ii) Cumulative translation differences

The Group has set the cumulative translation differences for all foreign operations to zero at 1 January 2004.

Besides the exemptions referred to above, the Group has adopted retrospectively the remaining IFRS.

An explanation of how the transition to IFRSs has affected the reported financial position and financial performance of the Group is provided in Note 38.

2.2
Basis of consolidation

These consolidated financial statements comprise the financial statements of Banco Espírito Santo de Investimento, S.A and its subsidiaries ("the Group" or "BESI Group"), and the results attributable to the Group from its associated companies.

These accounting policies have been consistently applied by all Group companies.

Subsidiaries

Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than one half of the voting rights. Additionally, control also exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary attributable to minority interests, which exceed the equity of the subsidiary attributable to the minority interest, is attributed to the Group and is taken to the income statement when incurred. If the subsidiary subsequently reports profits, such profits are recognised by the Group until the losses attributable to the minority interest previously recognised have been recovered.

Associates

Associates are entities over which the Group has significant influence but not control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that significant influence ceases.

If the Group's share of losses of an associate equals or exceeds its interest in the associate, including any long-term interest, the Group discontinues the application of the equity method of accounting, except when it has a legal or constructive obligation of covering those losses or has made payments on behalf of the associate.

Special purpose entities ("SPE")

The Group consolidates certain special purpose entities ("SPE"), specifically created to accomplish a narrow and well defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, independently of the percentage of the equity held.

The evaluation of the existence of control is made based on the criteria established by SIC 12 – Consolidation – Special Purpose Entities, which can be summarised as follows:

- In substance, the activities of the SPE are being conducted in accordance with the specific needs of the Group's business, so that the Group obtains the benefits from these activities;
- In substance the Group has the decision-making powers to obtain the majority of the benefits from the activities of the SPE;
- In substance, the Group has rights to obtain the majority of the benefits of the SPE, and therefore may be exposed to the inherent risks of its activities;
- In substance, the Group retains the majority of residual or ownership risks related to the SPE so as to obtain the benefits from its activities.

Goodwill

Goodwill resulting from business combinations that occurred until 1 January 2004 is offset against reserves.

From 1 January 2004, the purchase method of accounting is used by the Group to account for the acquisition of subsidiaries and associated companies. The cost of acquisition is measured as the fair value, determined at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of identifiable net assets acquired.

In accordance with IFRS 3 – Business Combinations, goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the book value of the investment in that associated company determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates. The consolidated financial statements are prepared in euro, which is BESI's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euro as follows:

- Assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions;
- All resulting exchange differences are recognised in equity. When the entity is sold such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provides evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

2.3.
Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined.

2.4.
Derivative financial instruments and hedge accounting

From 1 January 2005

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 a hedging instrument 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 hedge 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 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 fair value hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

• Cash flow hedge

Where 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 affects the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

During the periods covered by these financial statements the Group did not have any transactions classified as cash flow hedge.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Until 31 December 2004

Until 31 December 2004, the accounting for derivative financial instruments was dependent upon whether they were contracted for trading or hedging purposes.

Derivative financial instruments were classified as hedging instruments if they complied, cumulatively, with the following conditions:

- *the position to be hedged was clearly identified and exposed the Group to the risk of losses arising from potential changes in interest rates, prices and credit risk that certain assets, liabilities, off-balance sheet items and cash-flows might be exposed to;*
- *were specifically classified as hedging in the Group's internal documentation;*
- *changes in value in the derivative financial instrument were correlated with changes in opposite direction in the position to be hedged, such that the hedging instrument was efficient, eliminating or reducing considerably the risk of a loss in the hedged position, from the beginning of the contract until its maturity.*

There were no specific requirements to demonstrate the effectiveness of the hedging relationship, neither retrospectively nor prospectively.

Derivate financial instruments that did not comply with the above-mentioned conditions were accounted for as trading positions.

Hedging derivatives were accounted for in off balance sheet accounts at their notional amounts until maturity dates and interests and premiums were recorded on an accrual basis. Results obtained from hedging contracts were accounted for in accordance with the same principle followed to the results with the opposite sign of the hedged items.

Trading derivatives were marked to market with changes recognised in the profit and loss account.

If a derivative instrument classified as hedge was sold, settled before its maturity or transferred to the trading portfolio, the respective gain or loss was

immediately recognised in the statement of income. If the hedged item was sold, or the hedge ceased to be effective, the corresponding derivative instrument was immediately reclassified as a trading instrument.

There were no specific requirements regarding embedded derivatives.

2.5.
Loans and advances to customers

From 1 January 2005

Loans and advances to customers include loans and advances originated by the Group, which are not intended to be sold in the short term. Loans and advances to customers are recognised when cash is advanced to borrowers.

Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest method, less impairment losses.

Impairment

The Group assesses, at each balance sheet date, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for each loan. In this assessment the Group uses the information that feeds the credit risk models implemented and takes 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 capability to trade successfully and to generate sufficient cash flow to service their debt obligations;
- the extent of other creditors' commitments ranking ahead of the Group;
- the existence, nature and estimated realisable value of collaterals;
- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

Where 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.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the group and historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group with the purpose of reducing any differences between loss estimates and actual loss experience.

When a loan is considered by the Group as uncollectible and an impairment loss of 100% was recognised, it is written off against the related allowance for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the loan impairment loss recognised in the income statement.

Until 31 December 2004

Loans and advances to customers included loans and advances originated by the Group. Loans and advances were recognised when cash was advanced to borrowers and were reported at their outstanding principal amount less provisions for loan losses determined in accordance with the applicable requirements issued by the Bank of Portugal.

Provisions for loan losses for the Bank and its subsidiaries in the financial sector headquartered in Portugal included:
(i) a specific provision for overdue loans and interest, presented as a deduction from assets, and was calculated at rates varying between 1% and 100% on overdue loans and interest, according to risk classification and whether secured or unsecured with collaterals;

(ii) a specific provision for doubtful loans, shown as a deduction from assets, at a percentage no less than 50% of the average coverage provision of overdue loans, applied to the outstanding instalments of loans to any single customer, where it was ascertained that the overdue instalments of principal and interest exceeded 25% of principal outstanding plus overdue interest; and

(iii) a general provision for credit risks, presented as a liability, corresponding to a minimum of 1% of total performing loans, including guarantees and other instruments, except for consumer loans, where the provisioning rate was at least 1.5% of such loans, and for mortgage loans or real estate financial lease, whenever the real estate asset (collateral) was for borrower's own use, where the provisioning was of 0.5%.

After the application of the above loan losses provision procedures, there was an overriding requirement that the provision should be sufficient to cover the economic risk of the portfolio.

Loans (and the related provisions) were normally written off, either partially or in full, when there was no realistic perspective of recovery of the amounts due and when the proceeds from the realisation of the collateral had been received.

2.6.
Other financial assets

From 1 January 2005

Classification

The Group classifies its other financial assets at initial recognition in the following categories:

• Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term and (ii) financial assets that are designated at fair value through profit or loss at inception.

• Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

• Available-for-sale investments

Available-for-sale investments 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 investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case these transaction costs are directly recognised in the income statement.

Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of any impairment losses recognised.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Financial instruments whose fair value cannot be reliably measured are carried at cost.

Reclassifications between categories

In accordance with IAS 39, the Group does not reclassify, after initial recognition, a financial instrument into or out of the fair value through profit or loss category.

Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for listed securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for unlisted 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.

Until 31 December 2004

• *Trading securities*

Trading securities as at 31 December 2004 were reclassified, in order to conform to the 2005 presentation, as financial assets at fair value through profit or loss.

Trading securities were those purchased for resale within a maximum period of six months.

Bonds and other fixed income securities were marked to market, plus accrued and uncollected interest. Unlisted bonds were valued at the lower of cost or estimated realisable value, plus accrued interest, calculated at the nominal interest rate. Unrealised gains and losses and interest were accounted for as income or expenses of the period.

Shares and other variable income securities were marked to market, or if unlisted, at the lower of cost or presumed market value. Gains or losses in shares that featured in the indexes of the Euronext Lisbon or in shares traded on other stock exchanges with adequate liquidity were recognised directly in the statement of income. Unrealised losses on securities not listed were fully provided for in the statement of income.

• Investment securities

Investment securities as at 31 December 2004 were reclassified, in order to conform to the 2005 presentation, as available-for-sale financial assets.

Investment securities were those purchased for resale, but usually held for more than six months, even though intended to be held to maturity, did not meet the requirements for such classification.

Bonds and other fixed income securities were shown at amortized cost. The difference between cost and par, representing the premium or discount at time of purchase, was amortized over the remaining life and recorded in the statement of income. Accrued interest was recognized as income and shown under Prepayments and accrued income. The value of zero coupon bonds included their respective accruals of interest.

Unrealised losses resulting from the difference between cost and market value, or if unlisted, between cost and presumed realizable value, were fully provided for and charged to the statement of income.

Shares and other variable income securities were recorded at cost. Unrealised losses resulting from the difference between cost and market value, or if unlisted, between cost and the estimated realizable value, were fully provided for in the statement of income.

• Bonds overdue

Unrealised losses with bonds overdue were provided in accordance with the criteria for overdue loans without collateral, in accordance with the Bank of Portugal regulations (see Note 2.5).

• Other investments

Other investments as at 31 December 2004 included equity holdings of a strategic and long term nature, although the percentage of equity held was below 20%. Other investments were reclassified, in order to conform to the 2005 presentation, as available-for-sale financial assets.

The other investments were accounted for at acquisition cost net of the provisions made under Regulations no. 3/95 and no. 4/2002 of the Bank of Portugal.

Regulation no. 4/2002, effective from June 30, 2002, established the following rules for the provision of equity holdings:

- *The set-up of provisions was required whenever the unrealised losses in equity holdings were higher than 15% of the acquisition cost. The amount of provision corresponded to 40% of the unrealised losses that exceeded 15% of the acquisition cost*
- *For the equity holdings, existing as at December 31, 2001, a transition rule was established that allowed the provision for the unrealised losses to be set up according to the following rule:*

- Financial and insurance companies: 10% each year during 10 years;

- Non-financial companies: 25% each year for the first three years, 15% in fourth year and 10% in fifth year.

Increases in unrealised losses that occurred after June 30, 2002, during the transition period, related to the equity holdings existing as at December 31, 2001, were recorded in the period in which they occurred.

Decreases in the unrealised losses after June 30, 2002, that occurred during the transition period, with reference to the equity holdings as at December 31, 2001, could not result in a reduction in the levels of provisions to be set up in the transition period, except if the value of the provision set up exceeded what would be necessary if the transition rules were not applied.

Unrealised losses provided in 2004, 2003 and 2002 for equity holdings held as at December 31, 2001, were, in accordance with Regulation no. 4/2002, recognised against Reserves.

2.7.
Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') at a fixed price or at the sales price plus a lender's return are not derecognised. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest 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 method.

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.6. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

2.8.
Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales. These financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest method, except for short sales which are measured at fair value.

If the Group repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

2.9.
Equity instruments

An instrument is classified as 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. Consideration paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs, as treasury stock.

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

2.10.
Offsetting financial instruments

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

2.11.
Assets acquired in exchange for loans

Assets acquired in exchange for loans are reported in 'Other assets' and are initially recognised at the lower of their fair values and the carrying amount of the loans.

Subsequently, those assets are measured at the lower of their carrying amount and the corresponding fair values and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

The value of assets acquired in exchange for loans is periodically reviewed by the Group.

2.12.
Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

2.13.
Intangible assets

Acquired or developed computer software or licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives, which is usually between three to six years.

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

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

2.14.
Leases

The Group classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

Payments made under operating leases are charged to the income statement in the period to which they relate.

Finance leases

• As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the amortisation 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.

2.15.
Employee benefits

Pensions

To cover the liabilities assumed by the Group within the framework stipulated by the ACT "Acordo Colectivo de Trabalho " for the banking sector, pension funds designed to cover retirement benefits on account of age, including widows and orphans benefits and disability were set up for the entire work force.

Additionally, in 1998, the Group decided to set up autonomous open-end pension funds to cover complementary pension benefits for employees and pensioners.

The funds are managed by ESAF – Espírito Santo Fundos de Pensões, S.A., a subsidiary of the Banco Espirito Santo S.A.

The pension plans of the Group are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In the light of IFRS 1, the Group decided to adopt, at transition date (1 January 2004), IAS 19 retrospectively and has recalculated the pension and other post-retirement benefits obligations and the corresponding actuarial gains and losses to be deferred in accordance with the corridor method allowed by this accounting standard.

The liability with pensions is calculated annually by the Group, at the balance sheet date for each plan individually, using the projected unit credit method, and is reviewed by qualified independent actuaries. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Actuarial gains and losses determined annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions are recognised as an asset or liability and are recognised in the income statement using the corridor method.

This method establishes that the actuarial gains and losses accumulated at the beginning of the year that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the year, are charged to the income statement over a period that cannot exceed the average of the remaining working lives of the employees participating in the plan. The Group has determined on the basis of the above criteria

to amortise the actuarial gains and losses that fall outside the corridor during a 15 year period. The actuarial gains and losses accumulated at the beginning of the year that are within the corridor are not recognised in the income statement.

Annually the Group recognises as a cost in the income statement a net total amount of (i) the service cost, (ii) the interest cost, (iii) the expected return on plan assets, (iv) a portion of the net cumulative actuarial gains and losses determined using the corridor method, and (v) the effect of curtailment losses related with early retirements, which includes the amortisation of the respective actuarial gains and losses.

The effect of the early retirements corresponds to the increase in pension and health care liabilities due to retirements before the normal age of retirement, which is 65 years.

The Group makes payments to the fund in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Health care benefits

The Group provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and contribution on medical assistance expenses, diagnostics, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, holiday and Christmas subsidy.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above.

Long-service benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, the Group has assumed the commitment to pay to current employees that achieve 15, 25 or 30 years of service within the Group, long service premiums corresponding, respectively, to 1, 2 or 3 months of their effective monthly remuneration earned at the date the premiums are paid.

In the case of disability the employees have the right to a long-service benefit in the amount of the proportion of the one they would receive if they remained active.

These long-service benefits are accounted for by the Group in accordance with IAS 19 as other long-term employee benefits.

The liability with long-service premiums is calculated annually, at the balance sheet date, by the Group using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liabilities.

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

Bonus to employees

In accordance with the by-laws of certain Group entities, annually the shareholders approve in the annual general meetings an amount to be paid to the employees as bonus, following a proposal made by the Board of Directors.

Bonus payments to employees are recognised in the income statement in the period to which they relate.

2.16. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available-for-sale investments 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 in any 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. 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 utilised.

2.17. Provisions

Provisions are recognised when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

2.18. Interest income and expense

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

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.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component of the changes in their fair value is not separated out and is classified under net (losses)/gains from financial assets at fair value through profit or loss. For hedging derivatives of interest rate risk, the interest component of the changes in their fair value is recognised under interest and similar income or interest expense and similar charges.

2.19.
Fee and commission income

Fees and commissions are recognised as follows:

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

2.20.
Dividend income

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

2.21.
Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.22.
Earnings per share

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

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

During the periods covered by these financial statements the Group did not have any potential ordinary shares.

2.23
Non-current assets held for sale

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

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

2.24
Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

Note_3
Critical accounting estimates, and judgements in applying accounting policies

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

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

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

3.1.
Impairment of available for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgment in making estimates of fair value.

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

3.2.
Fair value of derivatives

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

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could produce different financial results for a particular period.

3.3.
Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.5.

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

3.4.
Income taxes

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

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

The Tax Authorities are entitled to review the Bank and its subsidiaries' determination of its 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 domiciled in Portugal, is confident that there will be no material tax assessments within the context of the financial statements.

3.5.
Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

Note_4
Segment reporting

BESI Group is structured in accordance with the following business areas:
(i) Investment banking – includes the investment banking activity, namely mergers and acquisitions advice, debt issues arrangements, studies and analysis;
(ii) Asset management – includes the investment fund management and asset management activities.

The primary segments' reporting is presented as follows:

Thousands of euros

	31.12.2005						
	Domestic activity		Foreign activity				
	Investment Banking	Total	Investment Banking	Asset Management	Total	Intra-Group	TOTAL
Interest and similar income	45,475	45,475	123,449	16	123,465	(22,192)	146,748
Interest expense and similar charges	35,578	35,578	111,462	-	111,462	(21,055)	125,985
Net interest income	**9,897**	**9,897**	**11,987**	**16**	**12,003**	**(1,137)**	**20,763**
Dividend income	51,767	51,767	286	-	286	(50,263)	1,790
Fee and commission income	19,704	19,704	22,215	-	22,215	(953)	40,966
Fee and commission expense	3,993	3,993	6,399	1	6,400	12	10,405
Net (losses)/gains from financial assets at fair value through profit or loss	13,389	13,389	(11,080)	-	(11,080)	(22,919)	(20,610)
Net (losses)/gains from available-for-sale financial assets	(394)	(394)	106	-	106	-	(288)
Net (losses)/gains from foreign exchange differences	(315)	(315)	54,107	-	54,107	(2,747)	51,045
Net (losses)/gains from the sale of other financial assets	-	-	-	-	-	-	-
Other operating income	24,197	24,197	(20,100)	685	(19,415)	26,164	30,946
Operating income	**114,252**	**114,252**	**51,122**	**700**	**51,822**	**(51,867)**	**114,207**
(Operating income from external customers)	*114,252*	*114,252*	*51,122*	*700*	*51,822*	*(51,867)*	*114,207*
(Inter-segments operating income)	-	-	-	-			
Staff costs	20,556	20,556	16,796	757	17,553	-	38,109
General and administrative expenses	14,087	14,087	9,765	379	10,144	(889)	23,342
Depreciation and amortisation	1,129	1,129	936	14	950	34	2,113
Loans impairment net of reversals	(2,937)	(2,937)	9	-	9	3,318	390
Impairment on other financial assets net of reversals	5,998	5,998	-	-	-	2,347	8,345
Impairment on other assets net of reversals	(801)	(801)	-	-	-	(1,590)	(2,391)
Impairment on other assets net of reversals	(39)	(39)	-	-	-	(950)	(989)
Operating expenses	**37,993**	**37,993**	**27,506**	**1,150**	**28,656**	**2,270**	**68,919**
Gains on disposal of investments in subsidiaries and associates	12,033	12,033	-	-	-	313	12,346
Share of profit of associates	(7)	(7)	-	-	-	-	(7)
Profit before income tax	88,285	88,285	23,616	(450)	23,166	(53,824)	57,627
Income tax							
Current tax	23,386	23,386	2,064	(103)	1,961	(5)	25,342
Deferred tax	(16,400)	(16,400)	(161)	-	(161)	(1,169)	(17,730)
Profit after income tax and before minority interests	**81,299**	**81,299**	**21,713**	**(347)**	**21,366**	**(52,650)**	**50,015**
Minority interests	-	-	114	-	114	(110)	4
Profit for the year (attributable to equity holders of the Bank)	**81,299**	**81,299**	**21,827**	**(347)**	**21,480**	**(52,760)**	**50,019**
Other informations:							
Total assets	1,641,286	1,641,286	2,948,902	594	2,949,496	(978,216)	3,612,566
Investments in associates	1,008	1,008	-	-	-	-	1,008
Total liabilities	1,404,032	1,404,032	2,764,758	223	2,764,981	(806,103)	3,362,910
Capital expenditure (Property and equipment)	675	675	583	-	583	-	1,258
Capital expenditure (Intangible assets)	514	514	763	-	763	-	1,277
			31.12.2004				
Profit for the year	28,637	28,637	14,180	-	14,180	-	42,817
Total assets	1,153,845	1,153,845	1,467,732	-	1,467,732	-	2,621,577
Investments in associates	-	-	-	-	-	-	-
Capital expenditure (Property and equipment)	1,361	1,361	231	-	231	-	1,592
Capital expenditure (Intangible assets)	497	497	591	-	591	-	1,088

The secondary segment information is prepared in accordance with the geographical distribution of the Groups' business units, as follows:

Thousands of euros

	31.12.2005			
	Portugal	Other E.U. Countries	Latin America	Total
Profit for the year	42,518	6,070	1,431	50,019
Total Assets	1,643,759	1,431,175	537,632	3,612,566
Capital expenditure (Property and equipment)	675	237	346	1,258
Capital expenditure (Intangible assets)	514	622	141	1,277

Thousands of euros

	31.12.2004			
	Portugal	Other E.U. Countries	Latin America	Total
Profit for the year	28,637	13,889	291	42,817
Total Assets	1,153,845	1,076,287	391,445	2,621,577
Capital expenditure (Property and equipment)	1,361	174	57	1,592
Capital expenditure (Intangible assets)	497	482	109	1,088

Note_5
Net interest income

This caption is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Interest and similar income		
Interest from loans and advances	32,139	16,823
Interest from deposits with banks	31,311	23,474
Interest from hedging derivatives	19,043	4,646
Interest from available-for-sale financial assets	7,142	6,281
Interest from financial assets at fair value through profit or loss	54,519	19,368
Other interest and similar income	2,594	2,579
	146,748	73,171
Interest expense and similar charges		
Interest from deposits from central banks and other banks	61,875	33,128
Interest from hedging derivatives	8,947	4,658
Interest from debt securities	13,239	2,731
Interest from amounts due to customers	39,938	17,691
Interest from subordinated debt	1,952	1,894
Other interest expense and similar charges	34	248
	125,985	60,350
	20,763	12,821

Note_6
Net fee and commission income

This caption is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Fee and commission income		
From banking services rendered to third parties	17,382	22,475
From guarantees granted	734	287
From transactions with securities	22,850	17,213
From commitments assumed to third parties	-	38
Other fee and commission income	-	2,767
	40,966	**42,780**
Fee and commission expense		
From banking services rendered by third parties	1,081	978
From transactions with securities	5,363	8,675
From guarantees received	23	29
Other fee and commission expense	3,938	6,286
	10,405	**15,968**
	30,561	**26,812**

Note_7
Net gains from financial assets at fair value through profit or loss

This caption is analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	8,610	9,837	(1,227)	20,790	15,336	5,454
Issued by other entities	8,330	904	7,426	7,445	3,862	3,583
Shares	63,577	48,329	15,248	42,791	27,418	15,373
Derivative financial instruments	855,793	897,850	(42,057)	627,852	491,513	136,339
	936,310	**956,920**	**(20,610)**	**698,878**	**538,129**	**160,749**

Note_8
Net gains from available-for-sale financial assets

This caption is analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	9	3	6	1	-	1
Issued by other entities	130	396	(266)	1,806	566	1,240
Shares	-	28	(28)	14,888	1,181	13,707
	139	**427**	**(288)**	**16,695**	**1,747**	**14,948**

Note_9
Net gains from foreign exchange differences

This caption is analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	305,271	254,226	51,045	49,213	181,394	(132,181)
	305,271	**254,226**	**51,045**	**49,213**	**181,394**	**(132,181)**

This caption 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
Staff costs

This caption is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Wages and salaries	32,213	29,494
Remuneration	31,748	29,287
Long-service benefits (see Note 11)	465	207
Health-care benefits - SAMS (see Note 11)	132	151
Other mandatory social charges	3,062	2,760
Pension costs (see Note 11)	1,124	1,715
Other costs	1,578	2,091
	38,109	**36,211**

The decrease in pension costs is mainly due to the recognition in the income statement for the year ended 31 December 2004, of curtailment costs related to early retirements occurred during that period, in the amount of approximately euro 338 thousand.

As at 31 December 2005 the salaries paid by the Group to the Board of Directors of BESI amounted to euro 4,477 thousand.

As at 31 December 2005 and 2004, the loans granted by the Group to the Board of Directors of BESI amounted to euro 440 thousand and euro 382 thousand, respectively.

By professional category, the number of employees of the Group is analysed as follows:

	31.12.2005	31.12.2004
Senior Management	184	165
Management	21	27
Specific functions	147	136
Administrative functions	43	47
Auxilliary functions	5	2
	400	**377**

Note_11
Employee benefits

Pension and health-care benefits

In compliance with the collective labour agreement for the banking sector entered into with the unions, the Bank undertook to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force.

During 1998, Banco Espirito Santo and the Group's subsidiaries in Portugal, including BESI, decided to set up an autonomous open-end pension fund – the Fundo de Pensões Aberto GES – to cover complementary pension benefits of pensioners and employees in service.

This pension fund is managed by ESAF- Espírito Santo Fundo de Pensões, S.A.

The actuarial assumptions used to calculate pension liabilities, are as follows:

	Assumptions		Actual	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Financial assumptions				
Salaries increase rate	2.75%	2.75%	4.00%	2.56%
Pensions increase rate	1.75%	1.75%	2.50%	2.71%
Expected return of plan assets	5.25%	5.50%	8.61%	5.88%
Discount rate	4.75%	5.25%		
Demographic assumptions and Valuation methods				
Mortality table				
Men	TV,73/77,(ajustada)	TV,73/77		
Women	TV,88/90	TV,73/77		

In accordance with the accounting policy described in Note 2.15, the discount rate used to calculate the actuarial present value of the pensions and health care defined benefits, is determined at the balance sheet date by reference to interest rates of high-quality corporate bonds. Taking into account the financial market conditions as at 31 December 2005, BESI Group decided to use a discount rate of 4.75% (2004: 5.25%). The change in the discount rate led to an increase of pension and health care liabilities in the amount of euro 2.6 million (2004: euro 0.8 million).

Additionally, after having analysed the results of a study made of the characteristics of current and former employees, the Bank decided to change the mortality tables used in the calculation of the pension and health care liabilities. The change in the mortality tables led to an increase in pension and health care liabilities in the amount of approximately euro 1.1 million.

The contributions to SAMS are defined by that entity, as at 31 December 2004 represented 6.25% of staff costs. In 2005, this contribution rate changed to 6.50%.

As at 31 December 2005 and 2004, the number of employees covered by the plan is as follows:

	31.12.2005	31.12.2004
Employees	216	172
Pensioners	18	13
Widows and other direct relatives	4	1
TOTAL	**238**	**186**

Securities issued by Group companies which are part of the Pension Fund assets are analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Bonds	100	-
Total	**100**	**-**

As at 31 December 2005 and 2004, the application of IAS19 led to the following amounts recognised in the balance sheet:

Thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Assets / (liabilities) recognised in the balance sheet						
Liabilities as at 31 December						
Pensioners	5 969	388	6 357	4 220	260	4 480
Employees	15 767	1 025	16 792	11 939	734	12 673
	21 736	1 413	23 149	16 159	994	17 153
Fair value of plan assets as at 31 December	**18 486**	**-**	**18 486**	**15 950**	**-**	**15 950**
Unfunded liabilities	(3 250)	(1 413)	(4 663)	(209)	(994)	(1 203)
Unrecognised net actuarial losses as at 31 December	6 941	505	7 446	4 131	183	4 314
Asset/(liabilities) recognised in the balance sheet as at 31 December	**3 691**	**(908)**	**2 783**	**3 922**	**(811)**	**3 111**

The liabilities arising from the pension and healthcare benefits increased in 2005 and 2004, as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Liabilities as at 1 January	**16 159**	**994**	**17 153**	**14 215**	**876**	**15 091**
Business combination and others	4	-	4	-	-	-
Service cost	985	76	1 061	1 153	74	1 227
Interest cost	834	51	885	783	48	831
Plan participants' contribution	102	-	102	89	-	89
Actuarial (gains)/losses						
- by changes in the mortality table	1 053	95	1 148	-	-	-
- by changes in the discount rate	2 375	214	2 589	845	(5)	840
- other actuarial (gains)/losses	196	18	214	(946)	-	(946)
Benefits paid by the Fund	(545)	-	(545)	(318)	-	(318)
Benefits paid by the Group	-	(35)	(35)	-	(20)	(20)
Curtailment losses related to early retirements	573	-	573	338	21	359
Liabilities as at 31 December	**21 736**	**1 413**	**23 149**	**16 159**	**994**	**17 153**

The curtailment losses ocurred during 2005, in the amount of euro 573 thousand, were recognised as costs in the previous year (see note 32).

The change in the fair value of the plan assets in 2005 and 2004 is analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Fair value of plan assets as at 1 January	**15 950**	**-**	**15 950**	**14 038**	**-**	**14 038**
Business combination and others	92	-	92	-	-	-
Actual return on plan assets	1 427	-	1 427	912	-	912
Group contribution	1 460	-	1 460	1 229	-	1 229
Plan participants' contribution	102	-	102	89	-	89
Benefits paid by the Fund	(545)	-	(545)	(318)	-	(318)
Fair value of plan assets as at 31 December	**18 486**	**-**	**18 486**	**15 950**	**-**	**15 950**

The change in the unrecognised net actuarial losses in 2005 and 2004 is analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unrecognised net actuarial losses as at 1 January	**4 131**	**183**	**4 314**	**4 585**	**196**	**4 781**
Business combination and others	(82)	-	(82)	-	-	-
Actuarial (gains)/losses						
- by changes in the mortality table	1 053	95	1 148	-	-	-
- by changes in the discount rate	2 375	214	2 589	845	(5)	840
- other actuarial (gains)/losses	(368)	18	(350)	(1 090)	-	(1 090)
Amortisation of the year	(168)	(5)	(173)	(209)	(8)	(217)
Unrecognised net actuarial losses as at 31 December	**6 941**	**505**	**7 446**	**4 131**	**183**	**4 314**
Of which:						
Within the corridor	2 164	141	2 305	2 915	109	3 024
Outside the corridor	4 777	364	5 141	1 216	74	1 290

The change in unfunded liabilities is analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unfunded liabilities as at 1 January	**209**	**994**	**1 203**	**178**	**876**	**1 054**
Business combination and others	(88)	-	(88)	-	-	-
Actuarial (gains)/losses of liabilities	3 624	327	3 951	(101)	(5)	(106)
Actuarial (gains)/losses of plan assets	(564)	-	(564)	(145)	-	(145)
Charges for the year:						
- Service cost	985	76	1 061	1 153	74	1 227
- Interest cost	834	51	885	783	48	831
- Expected return on plan assets	(863)	-	(863)	(768)	-	(768)
- Curtailment losses related to early retirements	573	-	573	338	21	359
Contributions of the year and pensions paid by the Group	(1 460)	(35)	(1 495)	(1 229)	(20)	(1 249)
Unfunded liabilities as at 31 December	**3 250**	**1 413**	**4 663**	**209**	**994**	**1 203**

As at 31 December 2005 there was an insuficiency in the annual contribution in the amount of euro 2.5 million due to a change in the actuarial assumptions. In order to adjust this insuficiency the Group made a reinforcement during the first quarter of 2006, in the amount of euro 3.1 million.

The net periodic benefit cost can be analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Service cost	985	76	1,061	1,153	74	1,227
Interest cost	834	51	885	783	48	831
Expected return on plan assets	(863)	-	(863)	(768)	-	(768)
Amortisation of the unrecognized net gain / (loss)	168	5	173	209	8	217
Curtailment losses related to early retirements	-	-	-	338	21	359
Net periodic benefit cost	**1,124**	**132**	**1,256**	**1,715**	**151**	**1,866**

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

Thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
As at 1 January	3,922	(811)	3,110	4,408	(680)	3,728
Net periodic benefit cost	(1,124)	(132)	(1,256)	(1,715)	(151)	(1,866)
Charge-off of provisions	(573)	-	(573)	-	-	-
Contributions of the year and pensions paid by the Group	1,460	35	1,495	1.229	20	1,249
Business combination and others	6	-	5	-	-	-
As at 31 December	**3,691**	**(908)**	**2,781**	**3,922**	**(811)**	**3,111**

The assets / (liabilities) recognised in the balance sheet are included under other assets and other liabilities (see Note 25 and Note 32).

Long-service benefits

At 31 December 2005 and 2004, the Group's liability and costs incurred related to long-service benefits can be analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Liabilities as at 1 January	**1,404**	**1,202**
Costs of the year	465	207
Benefits paid	249	5
Liabilities as at 31 December	**1,620**	**1,404**

The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable).

As at 31 December 2005, BESI Group charged to staff costs the amount of euro

Note_12
General and administrative expenses

This caption is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Rental costs	4,121	3,280
Advertising costs	1,273	1,543
Communication costs	3,044	2,790
Travelling and representation costs	3,870	3,297
Maintenance and related services	592	686
Insurance	302	270
Specialised services	-	-
IT services	2,126	1,795
Temporary work	236	330
Independent work	1,558	1,019
Other specialised services	2,078	415
Other	4,142	4,864
	23,342	**20,289**

The balance other specialised services includes, among others, costs with security and surveillance, information services, external auditors and consultants, judicial and legal services. The balance other costs includes, among others, training costs and costs with external supplies.

Note_13
Earnings per share

Basic earning per share

Basic earning per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Thousands of euros

	31.12.2005	31.12.2004
Profit attributable to the equity holder of the Bank	50,019	42,817
Adjusted profit attributable to the equity holder of the Bank	**50,019**	**42,817**
Weighted average number of ordinary shares (thousands)	14,000	14,000
Weighted average number of ordinary shares outstanding (thousands)	**14,000**	**14,000**
Basic earnings per share attributable to equity holder of the Bank (in euro)	**3.57**	**3.06**

Diluted earning per share

The diluted earning per share is calculated considering the profit attributable to the equity holders of the Bank and the weighted average number of ordinary shares outstanding and is adjusted for the effects of all dilutive potential ordinary shares.

As at 31 de December 2005 and 2004, the Bank had no dilutive potential ordinary share. Therefore, the diluted earning per share is equal to the basic earning per share.

Note_14
Cash and deposits at central banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Cash	13	10
Deposits at central banks		
Bank of Portugal	2,489	4,074
Other central banks	270	146
	2,759	**4,220**
	2,772	**4,230**

The balance Deposits at Central Banks includes mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. As at 31 December 2005, these deposits earned interest at an average rate of 2.02% (31 December 2004: 2.02%).

Note_15
Deposits with banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Deposits with banks in Portugal		
Repayable on demand	2,431	992
	2,431	992
Deposits with banks abroad		
Repayable on demand	17,152	4,312
Uncollected cheques	280	-
	17,432	**4,312**
	19,863	**5,304**

Note_16
Financial assets at fair value through profit or loss

As at 31 December 2005 and 2004, this balance is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	319,771	180,284
Issued by other entities	96200	44393
Shares	98,427	173,509
Other variable income securities	38,612	24,395
	553,010	422,581
Derivatives	182,985	282,883
	735,995	**705,464**

As at 31 December 2005, the acquisition cost of the financial assets at fair value through profit or loss amounted to euro 513,667 thousand (31 de December 2004: euro 413,110 thousand).

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

Thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	2,904	10,506
3 to 12 months	13,446	8,522
1 to 5 years	332,688	201,756
More than 5 years	67,931	10,130
Undetermined	136,041	191,667
	553,010	**422,581**

As at 31 December 2005 and 2004, the balance financial assets at fair value through profit or loss is analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Listed	Not Listed	Total	Listed	Not Listed	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	319,771	-	319,771	180,284	-	180,284
Issued by other entities	96,200	-	96,200	44,393	-	44,393
Shares	98,427	-	98,427	173,509	-	173,509
Other variable income securities	37,614	998	38,612	18,157	6,238	24,395
Book value	552,012	998	553,010	416,343	6,238	422,581

As at 31 December 2005 and 2004, derivative financial instruments can be analysed as follows:

Thousands of euros

	31.12.2005			31.12.2004		
	Notional	Fair Value		Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts	**1,130,584**	**63,785**	**11,680**	**572,391**	**9,102**	**6,691**
Interest rate contracts						
Forward Rate Agreements	32,500	12	11	219,211	32	26
Interest Rate Swaps	5,119,302	64,027	59,283	5,399,021	225,977	199,046
Swaption - Interest Rate Options	58,604	880	880	-	-	-
Interest Rate Caps & Floors	2,477,942	7,615	7,632	2,104,804	15,063	15,098
Interest Rate Futures	591,534	211	107	310,942	-	58
Future Options	-	-	-	13,078	-	-
	8,279,882	**72,745**	**67,913**	**8,047,056**	**241,072**	**214,228**
Contratos,sobre,acções/índices						
Equity / Index Swaps	337,093	5,777	7,791	54,683	896	511
Equity / Index Options	3,707,193	39,141	219,250	2,146,953	29,470	87,423
Equity / Index Futures	964,689	-	-	307,265	-	-
	5,008,975	**44,918**	**227,041**	**2,508,901**	**30,366**	**87,934**
Credit default contracts						
Credit Default Swaps	338,018	1,537	880	186,104	2,343	207
	338,018	**1,537**	**880**	**186,104**	**2,343**	**207**
Total	**14,757,459**	**182,985**	**307,514**	**11,314,452**	**282,883**	**309,060**

The significant increase in the balance financial assets and liabilities at fair value through profit or loss was due to the adoption by the Group of IAS 39 in 2005. This standard, accordingly to the exceptions permited by IFRS 1 was not adopted to prepare the comparative financial information. The adoption of IAS 39 from 1 January 2005 led to a transfer of derivatives from hedging to trading.

Note_17
Available-for-sale financial assets

As at 31 December 2005 and 2004, this balance is analysed as follows:

Thousands of euros

		Fair value reserve			
	Amortised cost	Positive	Negative	Impairment	Book value
Bonds and other fixed income securities					
Issued by government and public entities	2,266	-	-	(9)	2,257
Issued by other entities	208,905	-	-	(12,301)	196,604
Shares	22,926	-	-	(7,627)	15,299
Other variable income securities	22,779	-	-	-	22,779
Balance as at 31 December 2004	**256,876**	**-**	**-**	**(19,937)**	**236,939**
Bonds and other fixed income securities					
Issued by government and public entities	2,113	67	-	-	2,180
Issued by other entities	209,510	1,125	(244)	-	210,391
Shares	2,389	3,980	-	(170)	6,199
Other variable income securities	31,034	402	-	-	31,436
Balance as at 31 December 2005	**245,046**	**5,574**	**(244)**	**(170)**	**250,206**

From 1 January 2005, available-for–sale financial assets are measured at their fair value, in accordance with the accounting policy described in Note 2.6. Until that date, these assets were recognised at acquisition cost net of provisions for unrealised losses, calculated as the difference between the acquisition cost and the market value.

The changes occurred in 2005 and 2004 in impairment losses of available-for-sale financial assets are presented as follows:

Thousands of euros

	31.12.2005	31.12.2004
Balance as at 31 December	19,937	24,929
Impact of adoption IAS 32 and IAS 39	(1,512)	-
Balance as at 1 January	18,425	24,929
Charge for the year	-	4,157
Charge off	(17,909)	(5,855)
Write back for the year	(2,388)	(2,484)
Exchange differences and other	2,042	(810)
Balance at the end of the year	**170**	**19,937**

The analysis of available-for-sale financial assets by the period to maturity is as follows:

Thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	3,889	651
3 to 12 months	11,143	47,222
1 to 5 years	128,155	88,953
More than 5 years	69,384	62,035
Undetermined	37,635	38,078
	250,206	**236,939**

The main contributions to the fair value reserve, as at 31 December 2005, can be analysed as follows:

Thousands of euros

	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
PALHEIRO-EU	75	-	-	(75)	-
CENTIMO-EUR	37	-	-	(37)	-
GOLFCONSULT - S.G.P.S., SA	56	-	-	(56)	-
ES FIN PORTUGAL EUR6M+87.4 OUT24	13,916	-	65	-	13,851
EURO CRED LUX NOV09 EUR01M+150BP	12,000	-	130	-	11,870
EURO CRED LUX MAR07	10,000	-	12	-	9,988
CREDIT SUISSE 1.875% CONVE MAY09	9,530	493	-	-	10,023
CRED SUI FIRST BOST 2% DEC07	2,500	200	-	-	2,700
REP.PORTUGUESA AGO2007 4.875%	2,068	67	-	-	2,135
BOLSA VALORES - S.P.	1,482	2,632	-	-	4,114
SAPECBRU-OEU	602	690	-	-	1,292
EMBRATEL 11% DEC2008	519	86	-	-	605
	52,785	**4,168**	**207**	**(168)**	**56,578**

Note_18
Loans and advances to banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Loans and advances to banks in Portugal		
Deposits	15,000	9,996
Other loans and advances	-	367
	15,000	**10,363**
Loans and advances to banks abroad		
Sales with repurchase agreement	961,280	877,632
	961,280	**877,632**
	976,280	**887,995**
Impairment losses	(2)	(3)
	976,278	**887,992**

The analysis of loans and advances to banks by the period to maturity is as follows:

Thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	939,905	887,995
3 to 12 months	4,185	-
1 to 5 years	32,190	-
	976,280	**887,995**

The changes occurred in the provision for impaired loans and advances to banks are presented as follows:

Thousands of euros

	31.12.2005	31.12.2004
Balance at the begining of the year	3	2
Charge for the year	4	6
Write back for the year	(7)	(6)
Exchange differences and other	2	1
Balance at the end of the year	2	3

Note_19
Loans and advances to costumers

As at 31 December 2005 and 2004, this balance is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Domestic loans		
Corporate		
Commercial lines of credits	42,328	6,058
Loans	505,778	371,627
Overdrafts	-	8
Other loans	18,217	10,974
Retail		
Mortgage loans	1,423	1,899
Consumer and other loans	12	16
	567,758	**390,582**
Foreign loans		
Corporate		
Loans	396,300	204,519
Other loans	4,699	32,931
	400,999	**237,450**
Overdue loans and interest		
Up to 90 days	1,406	773
More than 90 days	10,929	5,109
	12,335	**5,882**
	981,092	**633,914**
Provision for impaired loans	(18,847)	(15,657)
	962,245	**618,257**

The analysis of loans and advances to customers by period to maturity, as at 31 December 2005 and 2004, is as follows:

Thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	35,672	53,005
3 to 12 months	158,367	57,492
1 to 5 years	120,904	85,839
More than 5 years	653,814	431,696
Undetermined	12,335	5,882
	981,092	**633,914**

The changes occurred in the provision for impaired loans and advances to customers are presented as follows:

Thousands of euros

	31.12.2005	31.12.2004
Balance as at 31 December	15,657	10,550
Impact of adoption IAS 32 and IAS 39	(4,838)	-
Balance as at 1 January	10,819	10,550
Charge for the year	12,116	8,210
Charge off	(347)	(464)
Write back for the year	(3,771)	(2,466)
Exchange differences and other	30	(173)
Balance at the end of the year	**18,847**	**15,657**

Loans and advances to customers by interest rate type is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Fixed interest rate	69,456	39,579
Variable interest rate	911,636	594,335
	981,092	**633,914**

Note_20
Hedging derivatives

As at 31 December 2005 and 2004, the balance Hedging derivatives is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Hedging derivatives with positive fair value (assets)	23,558	2,196
Hedging derivatives with negative fair value (liabilities)	(27,434)	(630)
	(3,876)	1,566

From 1 January 2005, the Group follows the criteria defined in IAS 39 when applying hedge accounting (see Note 2.4).

As at 31 December 2005, the fair value hedge relationships present the following features:

Thousands of euros

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative	Changes in the fair value of the derivative in the year	Hedged item fair value	Chg. in the fair value of the hedged item in the year
Interest Rate Swaps	Bounds Issued	Interest Rate	367,690	(4,824)	(7,927)	2,784	6,197
Interest Rate Swaps	Deposits	Interest Rate	104,334	948	204	(723)	(44)
			472,024	**(3,876)**	**(7,723)**	**2,061**	**6,153**

The Group's hedging operations, as at 31 December 2005, presented an effectiveness above 96.5%. The ineffectiveness component of these operations amounted to euro 1,713 thousand and was recognised in the income statement.

The analysis of fair value hedge transactions by the period to maturity is as follows:

Thousands of euros

	31.12.2005	
	Notional	Fair value
Up to 3 months	5,300	(26)
3 to 12 months	65,750	105
1 to 5 years	244,724	(109)
More than 5 years	156,250	(3,846)
	472,024	**(3,876)**

Note_21
Non-current assets and liabilities held for sale

During December 2005, BES Investimento and Espírito Santo Saúde acquired 90% of the share capital of Hospor – Hospitais Portugueses S.A., a company which provides medical services. This company has two hospitals and three ambulatory centres in Portugal.

This acquisition was carried out through a vehicle 80% owned by BESI and 20% owned by Espírito Santo Saúde.

The current shareholding held by BESI will be sold to Espírito Santo Saúde during 2006.

As at 31 December 2005, in relation to this transaction, the Group recorded the amounts of euro 157,536 thousand and euro 112,428 thousand under non-current assets and liabilities held for sale, respectively. In relation to this transaction, the Group did not recognise any gain or loss during the year.

Note_22
Property and equipment

As at 31 December 2005 and 2004 this balance is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Property		
For own use	1,060	1,316
Improvements in leasehold property	2,675	2,412
	3,735	**3,728**
Equipment		
Computer equipment	4,263	4,392
Fixtures	1,629	1,528
Furniture	2,096	1,985
Security equipment	170	168
Office equipment	934	736
Motor vehicles	651	520
Other	33	51
	9,776	**9,380**
	13,511	**13,108**
Work in progress		
Improvements in leasehold property	219	-
Computer equipment and other	-	41
	219	**41**
	13,730	**13,149**
Accumulated depreciation	(7,898)	(7,294)
	5,832	**5,855**

The movement in this balance was as follows:

Thousands of euros

	Property	Equipment	Work in progress	Total
Net balance as at 1 January 2004	**3,045**	**2,950**	**205**	**6,200**
Acquisitions	425	976	191	1,592
Depreciation of the year	(304)	(1,027)	-	(1,331)
Disposals	(523)	(100)	-	(623)
Transfers	31	324	(355)	-
Exchange differences and other	11	6	-	17
Net balance as at 31 December 2004	**2,685**	**3,129**	**41**	**5,855**
Acquisitions	146	857	255	1,258
Depreciation of the year	(310)	(1,052)	-	(1,362)
Disposals	(4)	(13)	-	(17)
Transfers	5	71	(76)	-
Exchange differences and other	(165)	264	(1)	98
Net balance as at 31 December 2005	**2,357**	**3,256**	**219**	**5,832**

Note_23
Intangible assets

As at 31 December 2005 and 2004 this balance is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Goodwill	10,579	-
Acquired to third parties		
Software	7,582	8,166
Other	138	1,020
	7,720	**9,186**
Work in progress	570	400
	18,869	**9,586**
Accumulated amortisation	(6,131)	(8,056)
	(6,131)	**(8,056)**
	12,738	**1,530**

The balance Goodwill is related to ES Capital, a subsidiary acquired by the Group as at 30 December 2005. This goodwill was determined in accordance with the accounting policy described in Note 2.2.

The movement in this balance was as follows:

Thousands of euros

	Goodwill	Software	Other	Work in progress	Total
Net balance as at 1 January 2004	**-**	**1,626**	**74**	**29**	**1,729**
Acquisitions:					
Acquired from third parties	-	587	89	412	1,088
Amortisation of the year	-	(1,023)	(24)	-	(1,047)
Disposals	-	(179)	-	-	(179)
Transfers	-	109	(68)	(41)	-
Exchange differences and other	-	1	(62)	-	(61)
Net balance as at 31 December 2004	-	1,121	9	400	1,530
Acquisitions:					-
Acquired from third parties	10,579	928	19	330	11,856
Amortisation of the year	-	(722)	(29)	-	(751)
Transfers	-	157	3	(160)	-
Exchange differences and other	-	18	85	-	103
Net balance as at 31 December 2005	10,579	1,502	87	570	12,738

Note_24
Investments in associates

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

Thousands of euros

	Assets		Liabilities		Equity		Income		Profit/(loss) for the year		Acquisition cost	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
COMINVEST	7,316	7,169	537	607	6,779	6,562	388	294	92	57	2,089	2,089
SOTANCRO	83,464	78,326	63,054	62,091	15,499	16,235	63,216	57,764	976	1,258	2,843	-
LOG,ESCIC,,SGPS,,S.A.	5,936	-	3,387	-	2,549	-	3,133	-	(65)	-	1,207	-
Other											14,954	13,758
											21,093	**15,847**

Thousands of euros

	% held		Book value		Share of profit of associates	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
COMINVEST	25%	25%	1,695	1,640	23	14
SOTANCRO	49%	-	7,594	-	-	-
LOG,ESCIC,,SGPS,,S.A.	19%	-	868	-	-	-
Other			3,372	385	(30)	-
			13,529	**2,025**	**(7)**	**14**

The movement in this balance was as follows:

Thousands of euros

	31.12.2005	31.12.2004
Balance at the begining of the year	2,025	2,478
Acquisitions	1,008	-
Share of profit of associates	(7)	14
Business combination	10,317	-
Exchange differences and other	186	(467)
Balance at the end of the year	**13,529**	**2,025**

The business combination is related to investments in associates owned by ES Capital, entity acquired by BESI Group at 30 December 2005, and that, since that date, is included in consolidation by the full consolidation method.

The caption Gains on disposal of investments in subsidiaries and associates included in the income statement for the year ended at 31 December 2005 includes the amount of euro 12 million related to the disposal of the participation held in Jampur that was, until 31 December 2004, accounted by the equity method, with a book value of euro 1 thousand.

Note_25
Other assets

As at 31 December 2005 and 2004, the balance Other assets is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Debtors		
Deposits placed under options contracts	142,997	3,708
Deposits placed under futures contracts	77,973	48,142
Debtors for unrealised capital in subsidiaries	23,072	-
Loans to companies in which the Group has a minority interest	3,526	10,405
Public sector	145	80
Sundry debtors	14,655	10,691
	262,368	73,026
Impairment losses on debtors	(3,624)	(4,808)
	258,744	**68,218**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	506	7
Other assets	889	649
	1,395	**656**
Accrued income	**115**	**1,699**
Prepayments and deferred costs	**2,097**	**1,820**
Other sundry assets		
Foreign exchange transactions pending settlement	662	2,792
Stock exchange transactions pending settlement	147,113	48,556
Other transactions pending settlement	15,847	17,489
	163,622	**68,837**
Assets recognised on pensions (see Note 11)	**3,691**	**3,922**
	429,664	**145,152**

Stock exchange transactions pending settlement represent the net balance of the acquisition and disposal orders issued by the Group subsidiaries pending settlement.

Changes in impairment losses are presented as follows:

Thousands of euros

	31.12.2005	31.12.2004
Balance at the begining of the year	4,808	4,508
Charge for the year	-	289
Charge off	(49)	-
Write back for the year	(989)	(13)
Exchange differences and other	(146)	24
Balance at the end of the year	**3,624**	**4,808**

Note_26
Deposits from banks

The balance deposits from banks is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Domestic		
Inter-bank money market	143,517	413,721
Deposits	24,988	28,165
Other funds	37,062	92,911
	205,567	**534,797**
International		
Deposits	45	35
Loans	-	11,158
Repurchase agreements	82,556	55,431
Other funds	112,915	92,072
	195,516	**158,696**
	401,083	**693,493**

The analysis of deposits from banks by the period to maturity is as follows:

Thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	292,316	401,070
3 to 12 months	47,010	200,420
1 to 5 years	-	91,390
More than 5 years	61,757	613
	401,083	**693,493**

Note_27
Due to costumers

The balance due to customers is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Repayable on demand		
Demand deposits	18,494	14,601
Time deposits		
Time deposits	485,559	150,649
Other funds		
Repurchase agreements	879,883	843,136
Other	30,265	205
	910,148	**843,341**
	1,414,201	**1,008,591**

The analysis of the amounts due to customers by the period to maturity is as follows:

Thousands of euros

	31.12.2005	31.12.2004
Repayable on demand	18,494	14,601
With agreed maturity		
Up to 3 months	935,449	-
3 to 12 months	331,113	-
1 to 5 years	105,545	993,990
More than 5 years	23,600	-
	1,395,707	**993,990**
	1,414,201	**1,008,591**

Note_28
Debt securities issued

Outstanding debt securities is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Euro Medium Term Notes	641,475	183,935
Cash bonds	24,509	9,154
	665,984	**193,089**

During the year ended 31 December 2005, BESI Group issued debt securities amounting to euro 581,319 thousand (31 December 2004: euro 9,023 thousand) and reimbursed euro 115,855 thousand (31 December 2004: euro 241,808 thousand).

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

Thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	125,920	10,880
3 to 12 months	220,831	19,733
1 to 5 years	181,003	70,946
More than 5 years	138,230	91,530
	665,984	**193,089**

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

Thousands of euros

			31.12.2005				
Issuer	Designation		Currency	Issue Date	Book value ('000 euros)	Maturity	Global yield/interest rate
BESI	BESI CAIXA (BEST) TX FIXA		EUR	2004	3,314	2008	Fixed - 2.75%
BESI	BESI CAIXA(BEST) TX F JUN08 PLUS		EUR	2004	2,597	2008	Fixed - 4.85%
BESI	BESI RENDIM PLUSII TX VAR AGO08		EUR	2004	1,230	2008	Fixed - 4.85%
BESI	BESI RENDIM PLUS TX VAR OUT07		EUR	2004	2,008	2007	Fixed - 4.15%
BESI	BESI CAIXA BEST ACCOES EUROPA 4%	a)	EUR	2005	2,522	2010	Fixed - 4.00%
BESI	BESI MULTIESTRATEGIA MAR2010	a)	EUR	2005	2,679	2010	b)
BESI	BESI OBRIG RENDIMENT 20% MAY2015		EUR	2005	3,104	2015	Fixed - 5.00%
BESI	BESI OBRIG BULL&BEAR JUN10	a)	EUR	2005	1,452	2010	Indexed DJ Eurostoxx 50
BESI	BESI CX RANGE ACCR AND FX NOV11		EUR	2005	5,601	2011	Range accrual
ESIP	ES INVESTPLC SEP09 EURIBOR CAPII		EUR	1999	5,125	2009	Fixed - 2.95%
ESIP	ESIP JAN01/JAN11 CRDLKD US 11.85	a)	USD	2001	2,746	2011	Fixed - 11.85% d)
ESIP	ESIP FEB01/FEB06 CRDLKD US 10.0	a)	USD	2001	4,440	2006	Fixed - 10.00% d)
ESIP	ESIP FEB2007 REV FLOATER EUR QTO		EUR	2002	11,266	2007	Fixed - 18.56%
ESIP	ESIP NOV02 OCT2017 CALLABLE STEP		EUR	2002	7,770	2017	Fixed - 6.00%
ESIP	ESIP APR11 INDX BASQ LINQ 90%	a)	EUR	2003	4,601	2011	f)
ESIP	ESIP APR11 INDX BASQ LINQ 80%	a)	EUR	2003	4,087	2011	f)
ESIP	ESIP JUL03/JUL11 LINKED CMS		EUR	2003	16,175	2011	Fixed - 5.10%
ESIP	ESIP NOV2011 CMS LINKED EUR 5M		EUR	2003	5,511	2011	Fixed - 4.75%
ESIP	ESIP NOV03/JAN07 EQTYILK IBEX35	a)	EUR	2003	2,604	2007	Indexed IBEX 35
ESIP	ESIP NOV03/JAN07 EQTYILK STOXX50	a)	EUR	2003	2,604	2007	Indexed DJ Eurostoxx 50
ESIP	ESIP NOV03/JAN07 EQILK DOW JON I	a)	USD	2003	2,147	2007	Indexed DJ Industrial Average
ESIP	ESIP DEC2011 CMS LINKED EUR 6.5M		EUR	2003	7,106	2011	Fixed - 4.95%
ESIP	ESIP JAN07 STOCK BASKET LINKED	a)	EUR	2004	2,578	2007	Linked stocks basket
ESIP	ESIP JAN04/JAN06 IBEX35 LINKED	a)	EUR	2004	1,046	2006	Indexed IBEX 35
ESIP	ESIP JAN04/JAN06 EQL STOXX50 123	a)	EUR	2004	1,004	2006	Indexed DJ Eurostoxx 50
ESIP	ESIP JAN04/JAN06 EQL STOXX50 124	a)	EUR	2004	1,053	2006	Indexed DJ Eurostoxx 50
ESIP	ESIP JAN04/JAN06 EQL IBEX35	a)	EUR	2004	1,360	2006	Indexed IBEX 35
ESIP	ESIP JAN07 INDEX BASKET LINKED	a)	USD	2004	2,114	2007	c)
ESIP	ESIP JUL2012 CMS LINKED EUR 5.5M		EUR	2004	6,169	2012	Fixed - 4.95%
ESIP	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	12,895	2024	Fixed - 5.00%
ESIP	ESIP EURCRE CRDLINK NOV09		EUR	2004	12,028	2009	Fixed - 3.61%
ESIP	ESIP CMS LINKED NOV2014		EUR	2004	6,238	2014	Fixed - 6.00%
ESIP	ESIP EUR SNOWBALL FLOAT NOV2012		EUR	2004	6,508	2012	Fixed - 4.75%
ESIP	ESIP EUR SNOWBALL FLOAT FEB2010		EUR	2005	10,545	2010	Fixed - 4.25%
ESIP	ESIP EUR SNOWB FLOAT FEB2010 II		EUR	2005	26,362	2010	Fixed - 4.25%
ESIP	ESIP EUR6M+3 BPS MAR2010		EUR	2005	7,430	2010	Fixed - 2.19%
ESIP	ESIP ZERO COUPON SEP2006		EUR	2005	19,654	2006	0%
ESIP	ESIP NOV02 OCT2017 CALLABLE STEP		EUR	2002	1,702	2017	Fixed - 6.00%
ESIP	ESIP EUR12M+14 BPS APR2008		EUR	2005	15,231	2008	Fixed - 2.50%
ESIP	ESIP AMORTIZING MAY2010 ESTOXX50	a)	EUR	2005	3,746	2010	Indexed DJ Eurostoxx 50
ESIP	ESIP ASIAN BASKET EURO MAY2008	a)	EUR	2005	7,310	2008	e)
ESIP	ESIP ASIAN BASKET USD MAY2008	a)	USD	2005	768	2008	e)

			31.12.2005				
Issuer	Designation		Currency	Issue Date	Book value ('000 euros)	Maturity	Global yield/interest rate
ESIP	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	8,617	2015	Fixed - 6.00%
ESIP	ESIP RANGE ACCRUAL JUN15		EUR	2005	1,791	2015	Range accrual
ESIP	ESIP RANGE ACCRUAL AUG2013		EUR	2005	4,998	2013	Fixed - 1.90%
ESIP	ESIP BESLEAS&INFLAT LINK MAY15	a)	EUR	2005	7,165	2015	Indexed HIPC Ex-Tobacco
ESIP	ESIP EURIBOR12M+13 BP MAY2008		EUR	2005	8,204	2008	Fixed - 2.11%
ESIP	ESIP EUR6M+2 BPS JAN2006		EUR	2005	67,214	2006	Fixed - 6.25%
ESIP	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1,617	2015	Fixed - 7.06%
ESIP	ES INVEST PLC AGO06 BRISA LINKED	a)	EUR	2005	2,931	2006	Indexed to BRISA
ESIP	ESIP FEB2007 EQLK IBEX & ESTX50	a)	EUR	2005	2,743	2007	Indexed IBEX 35 and Eurostoxx 50
ESIP	ESIP AGO05 AGO08 FTD USD 1M		USD	2005	805	2008	Fixed - 5.25%
ESIP	ESIP AGO05 SEP35 CALLABLE INV FL		EUR	2005	12,696	2035	Fixed - 4.75%
ESIP	ESIP SEP17 RANGE ACC TARN		EUR	2005	2,670	2017	0%
ESIP	ESIP IBEX & SX5E LNQ MAR07	a)	EUR	2005	3,625	2007	Indexed IBEX 35 and Eurostoxx 50
ESIP	ESIP ZERO COUPON NOTE MAR06		EUR	2005	49,803	2006	Fixed - 15.00%
ESIP	ESIP EURBRL LNQ NOTE SEP13		EUR	2005	2,541	2013	Fixed - 6.10%
ESIP	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	7,004	2015	Fixed - 2.64%
ESIP	ESIP EMERG SOVEREIGN SEP 2006		EUR	2005	31,011	2006	0%
ESIP	ESIP SX5E E S&P500 00407		EUR	2005	2,180	2007	Reference Index basket
ESIP	ESIP CALL RANGE ACCRUAL OCT2008		EUR	2005	9,225	2008	Range accrual
ESIP	ESIP EQLK TELEFONICA OCT2008 USD		USD	2005	1,484	2008	Equity Linked
ESIP	ESIP EQLK TELEFONICA OCT2008 EUR		EUR	2005	12,009	2008	Equity Linked
ESIP	ESIP CALL RANGE ACCRUAL NOV2017		EUR	2005	3,365	2017	Range accrual
ESIP	ESIP HYBRID (FX AND EUR6M) OCT09		EUR	2005	3,558	2009	Fixed - 4.30%
ESIP	ESIP 30CMS-2CMS LKD NOTE NOV2036		EUR	2005	(3,020)	2036	0%
ESIP	ESIP RANGE ACCRUAL AND FX NOV11		EUR	2005	274	2011	Range accrual
ESIP	ESIP 07-12-06 ZERO COUPON		EUR	2005	48,713	2006	0%
ESIP	ESIP ZERO COUPON DEC08		EUR	2005	1,966	2008	0%
ESIP	ESIP RANGE ACCRUAL DEC08		EUR	2005	1,839	2008	Range accrual
ESIP	ESIP-ESP SANTO IN PLC 3.04% 2007		EUR	2005	3,999	2007	0%
ESIP	ESIP ZERO COUPON NOTE JUN06		EUR	2005	118,527	2006	0%
					665,984		

a) debt with embedded derivates attached
b) indexed to a basket composed by the indexes EUGATR, Eurostoxx 50, short EUR/Long USD and Goldman Sachs Commodity Index Excess Return
c) indexed to a basket composed by the indexes Dow J ones, Eurostoxx 50,Standarts & Poors 500 and Dow J ones Industrial
d) subject to adjustment in accordance with a credit operation
e) indexed to a basket composed by the indexes Nifty India Index; R E X Russia Index and China HSCE Index
f) indexed to a basket composed by the indexes DJ Eurotoxx 50; Standard & Poors 500 and Nasdaq 100

Note_29
Provisions

As at 31 December 2005 and 2004, the balance of provisions presents the following movements:

	Thousands of euros
	Other provisions
Balance as at 1 January 2004	**8,413**
Charge for the year	5,868
Write back for the year	(11,338)
Exchange differences and other	5
Balance as at 31 December 2004	**2,948**
Charge for the year	1,500
Charge off	(573)
Write back for the year	(1,110)
Business combination	613
Exchange differences and other	1,372
Balance as at 31 December 2005	**4,750**

These provisions are intended to cover certain contingencies related to the Group's activities.

The significative movement in 2004 is due to the regularization of a contingency related with the acquisition of a subsidiary in previous years.

Note_30
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.

BESI Group determined its income tax liability for 2005 and 2004 on the basis of a nominal rate of 27.5%, in accordance with the Law No. 107-B/2003 from 31 December.

The deferred taxes for 2005 and 2004 were determined based on the tax rate of 27.5%, as this is the approved tax rate at the balance sheet date.

The Portuguese Tax Authorities are entitled to review the annual tax returns of the Bank and its Portuguese subsidiaries related to 2004 and the following years for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries domiciled in Portugal, are confident that there will be no further material tax assessments within the context of the financial statements.

The deferred tax assets and liabilities recognised in the balance sheet in 2005 and 2004 can be analysed as follows:

Thousands of euros

	Assets		Liabilities		Net	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Derivative financial instruments	15,245	-	(3,348)	(4,232)	11,897	(4,232)
Available-for-sale financial assets	-	-	(312)	-	(312)	-
Loans and advances to customers	4,107	2,185	-	-	4,107	2,185
Investments in subsidiaries and associates	-	874	(874)	-	(874)	874
Provisions	1,059	1,477	-	-	1,059	1,477
Pensions	63	63	-	-	63	63
Long-service benefits	386	386	-	-	386	386
Other	-	-	(1,839)	(1,839)	(1,839)	(1,839)
Tax credits resulting from double tax treaties	1,205	-	-	-	1,205	-
Tax losses brought forward	2,005	2,005	-	-	2,005	2,005
Deferred tax asset / (liability)	**24,070**	**6,990**	**(6,373)**	**(6,071)**	**17,697**	**919**
Assets/liabilities compensation for deferred taxes	(5,700)	(5,398)	5,700	5,398	-	-
Deferred tax asset / (liability), net	**18,370**	**1,592**	**(673)**	**(673)**	**17,697**	**919**

The deferred tax movement in 2005 and 2004 can be analysed as follows:

Thousands of euros

	31.12.2005		31.12.2004	
	Recognised in profit	Recognised in reserves	Recognised in profit	Recognised in reserves
Derivative financial instruments	(16,304)	-	(659)	-
Available-for-sale financial assets	167	-	-	-
Loans and advances to customers	(2,554)	-	(1,500)	-
Investments in subsidiaries and associates	1,748	-	-	-
Provisions	418	-	492	-
Pensions	-	-	(329)	-
Long-service benefits	-	-	(54)	-
Other	(1,205)	-	2,000	-
Transition adjustment as at 1 January 2005	-	952	-	-
	(17,730)	**952**	**(50)**	**-**

The reconciliation of the income tax rate is shown in the following table:

Thousands of euros

	31.12.2005		31.12.2004	
	%	Amount	%	Amount
Profit before minority interests and taxes		**57,627**		**56,864**
Statutory tax rate	27.5%		27.5%	
Income tax calculated based on the statutory tax rate		15,847		15,638
Diferences on the subsidiaries statutory tax rates		(3,072)		(537)
Tax-exempt dividends		(398)		-
Tax-exempt gains		(3,575)		(152)
Changes in estimates and other		(1,317)		(1,393)
Non deductible costs		127		107
		7,612		**13,663**

Note_31
Subordinated debt

The balance subordinated debt is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Subordinated debt		
Cash bonds	99,309	57,028
	99,309	**57,028**

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

Thousands of euros

		31.12.2005				
Issuer	Designation	Issue Date	Amount issued	Carrying amount	Interest rate	Maturity
BESI	BANCO ESSI SUB. 96/06 (EURO)	1996	29,928	29,283	2,375	2006
BESI	BESI SUBORDINADAS OCT2033 5.5%	2003	10,000	10,196	5,500	2033
BESI	BESI CAIXA SUB DEC15	2005	60,000	-	6,600	2009
ESIP	ESIP LOWER TIER II DEC15	2005	60,000	59,603	6,600	2009
Sub-total			**159,928**	**99,082**		
Accrued interest			-	227		
			159,928	99,309		

During the year ended 31 December 2005, BESI Group issued subordinated debt securities in the amount of euro 120 million and reimbursed euro 19.9 million. No subordinated debt was issued or reimbursed during 2004.

Note_32
Other liabilities

As at 31 December 2005 and 2004, the balance Other liabilities is analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Creditors		
Public sector	6,813	9,471
Sundry creditors		
Creditors from transactions with securities	47,861	25,746
Suppliers	4,124	1,771
Health care benefits (see Note 11)	908	811
Other sundry creditors	50,688	10,538
	110,394	**48,337**
Accrued expenses		
Long-service benefits (see Note 11)	1,620	1,404
Other accrued expenses	5,253	6,446
	6,873	7,850
Deferred income	**407**	**718**
Other sundry liabilities		
Stock exchange transactions pending settlement	161,537	50,157
Foreign exchange transactions pending settlement	259	11,433
Other transactions pending settlement	24,780	20,812
	186,576	**82,402**
	304,250	**139,307**

As at 31 December 2005 and 2004 the balance stock exchange transactions pending settlement represents the net balance of the acquisition and disposal orders issued by the Group subsidiaries pending settlement.

Note_33
Share capital and share premium

Ordinary shares

As at 31 December 2005, the Bank's share capital was represented by 14 million ordinary shares with a face value of 5 euros each, which were subscribed and fully paid by Banco Espirito Santo S.A.

During 2005 the Bank did not issue any ordinary shares representative of its share capital.

Share premium

As at 31 December 2005, the share premium in the amount of 8,796 thousands of euros relates to the capital increase occurred during July 1998.

Note_34

Fair value reserve, other reserves, retained earnings and minority interests

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, December 31) requires that 10% of the profit for the year must 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 unrealised gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years. The amount of this reserve is shown net of deferred taxes.

During 2005 and 2004, the changes in these captions were as follows:

Thousands of euros

	Fair value reserves			Other reserves and retained earnings		
	Available-for-sale financial assets	Deferred tax reserves	Total Fair value reserve	Legal Reserve	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 1 January 2004 IFRS (excluding IAS 32 and IAS 39)	-	-	-	9,777	56,902	66,679
Dividends from ordinary shares	-	-	-	-	(1,479)	(1,479)
Regulation nr. 4/2002	-	-	-	-	(1,251)	(1,251)
Exchange differences	-	-	-	-	1,064	1,064
Transfer to reserves	-	-	-	2,580	13,411	15,991
Balance as at 31 December 2004 IFRS (excluding IAS 32 and IAS 39)	-	-	-	12,357	68,647	81,004
Effect of adoption of IAS 32 and IAS 39	2,530	(145)	2,385	-	(5,575)	(5,575)
Balance as at 1 January 2005 IFRS	**2,530**	**(145)**	**2,385**	**12,357**	**63,072**	**75,429**
Changes in fair value	2,142	-	2,142	-	-	-
Dividends from ordinary shares	-	-	-	-	(7,825)	(7,825)
Exchange differences	-	-	-	280	3,094	3,374
Transfer to reserves	-	-	-	5,850	-	5,850
Balance as at 31 December 2005	**4,672**	**(145)**	**4,527**	**18,487**	**58,341**	**76,828**

The movement in the fair value reserve, net of deferred taxes, in the year ended 31 December 2005 is analysed as follows:

Thousands of euros

	31.12.2005
Amortised cost of available-for-sale financial assets	245,046
Accumulated impairment recognised	(170)
Amortised cost of available-for-sale financial assets, net of impairment	244,876
Fair value of available-for-sale financial assets	250,206
Net unrealised gains recognised in the fair value reserve	5.330
Deferred taxes	(145)
Minority interests	(658)
Balance as at 31 December 2005	**4,527**

The movement in the fair value reserve, net of deferred taxes, in the year ended 31 December 2005 is analysed as follows:

Thousands of euros

	31.12.2005
1 January 2005	**2,385**
Changes in fair value	2,124
Disposals during the year	18
Balance as at 31 December 2005	**4,527**

Minority interests are analysed as follows:

Thousands of euros

	31.12.2005		31.12.2004	
	Balance sheet	Income statement	Balance sheet	Income statement
ROPSOH - Unidades de Saúde, S.A.	11,045	-	-	-
BES Investimento do Brasil	4,360	(204)	3,470	360
BES Securities	1,109	90	611	24
Fundo de Capital de Risco Ibéria I	16,511	-	-	-
Morumbi Capital Fund	6,461	110	-	-
	39,486	**(4)**	**4,081**	**384**

The changes in minority interests for the years ended 31 December 2005 and 2004 are analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Minority interests as at 1 January	4,081	5,687
Business combination	34,183	-
Dividends paid	-	(1,000)
Changes in fair value reserve	253	-
Exchange differences and other	973	(990)
Profit for the year	(4)	384
Minority interests as at 31 December	**39,486**	**4,081**

Note_35
Contingent liabilities and commitments

As at 31 December 2005 and 2004, this caption can be analysed as follows:

Thousands of euros

	31.12.2005	31.12.2004
Contingent liabilities		
Guarantees and standby letters of credit	134,910	189,855
Assets pledged as collateral	117,408	73,287
	252,318	**263,142**
Commitments		
Irrevocable commitments	305,340	205,508
	305,340	**205,508**

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

Irrevocable commitments represent contractual agreements to extend credit to Group's customers (e.g. unused credit lines). These agreements are, generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the client and its business, like any other commercial operation. When necessary, the Group require that these operations are collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not represent necessarily future out-flows.

As at 31 December 2005, the caption assets pledged as collateral include:

Securities pledged as collateral to the Bank of Portugal for the use of the money transfer system (Sistema de Pagamento de Grandes Transacções) in the amount of euro 26,385 thousand (31 December 2004: euro 29,856 thousand);

Securities pledged as collateral to the Portuguese Securities Market Commission (CMVM) in the ambit of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 2,000 thousand (31 December 2004: euro 2,000 thousand);

Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 70 thousand (31 de December 2004: euro 70 thousand);

Securities pledged as collateral to the Spanish Options and Futures Market in the amount of euro 83,454 thousand.

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

Thousands of euros

	31.12.2005	31.12.2004
Securities and other items held for safekeeping on behalf of customers	2,166,708	1,422,812
	2,166,708	**1,422,812**

Securities under custody and included in the balance securities and other items held for safekeeping on behalf of customers are mainly deposited in the Group company specialised in securities custody.

Note_36
Related parties transactions

As at 31 December 2005 and 2004, the balances and transactions with related parties are presented as follows:

Thousands of euros

	31.12.2005		31.12.2004	
	Liabilities	Guarantees	Liabilities	Guarantees
Associated companies				
Cominvest	2,521	67	1,537	68
	2,521	67	1,537	68

As at 31 December 2005 and 2004, the total amount of assets and liabilities of BESI Group with ESFG (Bank holding) and related companies, is as follows:

Thousands of euros

	31.12.2005	31.12.2004
Assets	157,123	144,952
Liabilities	322,446	579,917
Off balance sheet items	2,024,400	1,717,338

Assets, liabilities and off balance sheet items with Group entities are mainly related with loans and derivative operations with the shareholder, Banco Espírito Santo S.A.

Note_37
Risk management

A qualitative outlook of the risk management at BESI Group is presented below.

Risk control and risk management provides an active support to management, being one of the strategic mainstays supporting BESI Group's balanced and sustained development.

BESI's risk management has the following objectives:

- to identify, quantify and monitor the different types of risk, progressively applying uniform and consistent principles and methodologies to all the Group's entities;
- to fine-tuning tools to support the structuring of transactions and develop internal techniques of performance assessment and core capital optimisation;
- to assume a proactive attitude in the management of events of significant delay or definitive non performance of contractual obligations.

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 management of risk 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 circuits.

The Group's risk profile is periodically monitored, especially in what concerns the evolution of credit exposure and credit lines. Are equally subject to daily analysis the observance of approved credit limits and the correct functioning of the mechanisms associated to credit approval.

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 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. BESI's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

To improve on VaR assessment, other initiatives have been developed, namely back testing, which consists in comparing the losses foreseen by VaR with actual losses. These exercises permit the fine-tunning of the model and improving its predictive capabilities. As a complement to the VaR model, stress testing was also developed, which permits the assessment of the impact of higher potential losses than those considered using VaR valuation.

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2005 and 2004, is analysed as follows:

Thousands of euros

	31.12.2005						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreign currencies	Total
Assets							
Cash and deposits at central banks	2,766	-	5	-	1	-	2,772
Deposits with banks	12,605	21	3,027	8	4,202	-	19,863
Financial assets at fair value through profit or loss	222,824	18,402	17,065	2,983	474,721	-	735,995
Available-for-sale financial assets	209,336	33,593	-	-	7,277	-	250,206
Loans and advances to banks	938,196	-	-	-	38,082	-	976,278
Loans and advances to customers	864,807	34,259	63,179	-	-	-	962,245
Hedging derivatives	23,199	359	-	-	-	-	23,558
Non-current assets held for sale	157,536	-	-	-	-	-	157,536
Investments in associates	18,378	-	-	-	(5,857)	1,008	13,529
Other non-financial assets	446,837	8,941	3,338	-	11,126	342	470,584
Total assets	**2,896,484**	**95,575**	**86,614**	**2,991**	**529,552**	**1,350**	**3,612,566**
Liabilities							
Financial liabilities at fair value through profit or loss	289,222	2,079	9,756	-	6,457	-	307,514
Deposits from banks	195,144	71,588	72,632	3,022	58,575	122	401,083
Due to customers	975,489	20,408	-	-	418,304	-	1,414,201
Debt securities issued	651,479	14,505	-	-	-	-	665,984
Hedging derivatives	26,987	447	-	-	-	-	27,434
Subordinated debt	99,309	-	-	-	-	-	99,309
Non-current liabilities held for sale	112,428	-	-	-	-	-	112,428
Other non financial liabilities	307,059	8,165	3,663	-	15,707	363	334,957
Total liabilities	**2 657 117**	**117 192**	**86 051**	**3 022**	**499 043**	**485**	**3 362 910**
Equity	**231 621**	**-**	**-**	**-**	**18 035**	**-**	**249 656**
Net exposure	-	21,617	(563)	31	(12,474)	(865)	7 746
Operational exposure	**-**	**21 617**	**(563)**	**31**	**(12 474)**	**(865)**	**7 746**

Thousands of euros

	31.12.2004						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreign currencies	Total
Assets							
Cash and deposits at central banks	4,228	-	1	-	1	-	4,230
Deposits with banks	3,871	21	390	4	934	84	5,304
Financial assets at fair value through profit or loss	286,199	26,204	5,744	9,745	377,572	-	705,464
Available-for-sale financial assets	225,330	7,060	-	-	4,549	-	236,939
Loans and advances to banks	885,844	367	-	-	1,781	-	887,992
Loans and advances to customers	586,145	19,133	12,979	-	-	-	618,257
Hedging derivatives	1,947	249	-	-	-	-	2,196
Investments in associates	4,732	-	-	-	(2,707)	-	2,025
Other non-financial assets	140,495	3,947	3,389	-	11,339	-	159,170
Total assets	**2,138,791**	**56,981**	**22,503**	**9,749**	**393,469**	**84**	**2,621,577**
Liabilities							
Financial liabilities at fair value through profit or loss	154,505	2,222	220	-	152,113	-	309,060
Deposits from banks	539,763	57,258	20,450	9,488	66,534	-	693,493
Due to customers	860,790	1,204	10	-	146,583	4	1,008,591
Debt securities issued	188,335	(260)	-	-	5,014	-	193,089
Hedging derivatives	578	6	46	-	-	-	630
Subordinated debt	57,028	-	-	-	-	-	5702
Other non financial liabilities	138,004	1,982	568	14	12,420	-	152,988
Total liabilities	**1,939,003**	**62,412**	**21,294**	**9,502**	**382,664**	**4**	**2,414,879**
Equity	**196,115**	**-**	**-**	**-**	**10,583**	**-**	**206,698**
Net exposure	-	5,431	(1,209)	(247)	(222)	(80)	3,673
Operational exposure		**5,431**	**(1,209)**	**(247)**	**(222)**	**(80)**	**3,673**

Liquidity risk

Liquidity risk derives from the potential incapacity to fund assets while satisfying commitments on due dates and from potential difficulties in liquidating positions in portfolio without incurring excessive losses.

Liquidity management is centralised at the Treasury Department. The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. The overall exposure to liquidity risk is assessed through reports that by identifying negative mismatches allow for their hedging on a permanent and dynamic basis.

Liquidity risk is analysed under a two-fold perspective, i.e., it considers both the internal perspective and the regulatory perspective, which is calculated in accordance with Bank of Portugal rules.

Operational risk

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

To manage operational risk, is currently being developed the implementation of a system that standardises, systematises and regulates the frequency of actions with an objective of identification, monitoring, controlling and mitigation of risk.

Risk concentration

The analysis of loans and advances to customers and other financial assets by sector of activity, as at 31 December 2005 and 2004, can be analysed as follows:

Thousands of euros

	31.12.2005				
	Loans and advances to customers		Financial assets at fair value through profit or loss	Available-for-sale financial assets	
	Gross amount	Impairment losses	Gross amount	Gross amount	Impairment losses
Agriculture	5,492	(2,926)	-	-	-
Mining	-	-	4	-	-
Food, beverage and tobacco	-	-	13,000	27,321	-
Printing and publishing	15,410	(442)	2,992	5,033	-
Refining and oil	-	-	3,306	-	-
Chemicals and rubber	6,442	(18)	41	-	-
Non-metalic minerals	9	(2)	1,093	1,390	-
Metalic products	16	(6)	396	-	-
Production of machinery, equipment and electric devices	6,887	(51)	115	-	-
Production of transport material	8,477	(2,123)	3,609	-	-
Other transforming industries	-	-	1,656	1,302	-
Electricity, gas and water	122,530	(1,108)	17,185	-	-
Construction	87,851	(655)	3,362	2,108	-
Wholesale and retail	44,685	(2,085)	6,275	6,084	-
Tourism	18,586	(527)	2,134	-	-
Transports and communications	39,650	(472)	70,078	609	-
Financial activities	5,526	(792)	235,985	181,136	(95)
Real estate activities	27,496	(175)	904	-	-
Services provided to companies	5,291	(4)	3,737	896	-
Public services	134	(52)	319,780	2,180	-
Non-profit organisations	585,355	(7,402)	8,010	182	-
Mortgage loans	1,243	(7)	-	-	-
Consumer loans	12	-	-	-	-
Other	-	-	42,333	22,135	(75)
TOTAL	**981,092**	**(18,847)**	**735,995**	**250,376**	**(170)**

Thousands of euros

	31.12.2004				
	Loans and advances to customers		Financial assets at fair value through profit or loss	Available-for-sale financial assets	
	Gross amount	Impairment losses	Gross amount	Gross amount	Impairment losses
Agriculture	2,869	(197)	-	-	-
Mining	-	-	19	-	-
Food, beverage and tobacco	7,693	(324)	30,072	-	-
Printing and publishing	19,313	(1,270)	958	-	-
Refining and oil	-	-	5,773	650	-
Chemicals and rubber	10,848	(245)	-	-	-
Non-metalic minerals	13,534	(238)	3,539	1,390	-
Metalic products	7,443	(256)	789	-	-
Production of machinery, equipment and electric devices	1,770	(177)	243	-	-
Production of transport material	-	-	11,684	-	-
Other transforming industries	5,143	(237)	11,439	-	-
Electricity, gas and water	34,439	(1,217)	33,829	-	-
Construction	56,842	(809)	1,978	1,521	-
Wholesale and retail	12,158	(2,884)	5,705	6,044	-
Tourism	12,976	(493)	137	-	-
Transports and communications	122,196	(1,424)	90,516	571	-
Financial activities	6,975	(1,309)	398,879	214,121	(16,975)
Real estate activities	8,463	(283)	1,289	-	-
Services provided to companies	171,713	(2,483)	3,427	23	-
Public services	900	(497)	1,601	2,257	-
Non-profit organisations	136,724	(1,304)	14,544	50	-
Mortgage loans	1,899	(10)	-	-	-
Consumer loans	16	-	-	-	-
Other	-	-	89,043	30,249	(2,962)
TOTAL	**633,914**	**(15,657)**	**705,464**	**256,876**	**(19,937)**

Fair value of financial assets and liabilities accounted for at amortised cost.

The fair value of financial assets and liabilities accounted at amortised cost is analysed as follows:

Thousands of euros

	2005	
	Carrying value	Fair value
Cash and deposits at central banks	2,772	2,772
Deposits with banks	19,863	19,863
Loans and advances to banks	976,278	976,278
Loans and advances to customers	962,245	969,103
Total financial assets	**1,961,158**	**1,968,016**
Deposits from banks	401,083	401,083
Due to customers	1,414,201	1,414,201
Debt securities issued	665,984	665,534
Subordinated debt	99,309	100,199
Total financial liabilities	**2,580,577**	**2,581,017**

The major methods and assumptions used in estimating the fair values of financial assets and liabilities reflected in the table above 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.

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. 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, there are no quantifiable differences in its fair value.

Debt securities issued and Subordinated debt
For the instruments where the Group adopts the hedge accounting, its fair value is already reflected in the financial statements. For the remaining instruments, the fair value is based on market prices, when available. When not available, the Group estimates its fair value by discounting the expected future cash-flows.

Note_38
Transition adjustments to IFRS

As referred to in Note 2.1, these are the first consolidated financial statements prepared by the Group in accordance with the International Financial Reporting Standards (IFRS).

The accounting policies described in Note 2 were used in the preparation of the financial statements as at and for the year ended 31 December 2005, the comparative financial information for the year ended 31 December 2004, as well in the preparation of the opening consolidated balance sheet in accordance with the IFRS as at 1 January 2004 (transition date).

In the preparation of the opening consolidated balance sheet in accordance with IFRS and of the comparative financial information for the year ended 31 December 2004, the Group has restated amounts previously reported in accordance with the general accepted accounting principles for the banking sector, as established by the Bank of Portugal

The key impacts, in equity, of the transition to IFRS as at 1 January 2004, 31 December 2004 and 1 January 2005, and in the profit for the year as at 1 January 2005 is set out as follows:

Reconciliation of equity

Thousands of euros

		01.01.2004	31.12.2004
Equity (Bank of Portugal rules)(1)		**185,060**	**219,856**
IFRS adjustments (excluding IAS 32 and IAS 39)			
Bonus to employees	a)	(4,548)	(9,225)
Fund for general banking risks	b)	2,110	2,110
Pensions and health care benefits	c)	969	(227)
Long service benefits	d)	(1,202)	(1,404)
Intangible assets and deferred costs		-	(61)
Changes in the scope of consolidation	e)	(5,943)	(5,943)
Deferred taxes	f)	1,542	1,592
Equity IFRS adjusted (excluding IAS 32 and IAS 39)		**177,988**	**206,698**

(1) Includes minority interests, included on equity under IFRS.

Thousands of euros

		01.01.2005
Equity IFRS adjusted (excluding IAS 32 and IAS 39)		**206,698**
IAS 32 and IAS 39 adjustments		
Derivative financial instruments and hedge accounting	g)	(6,136)
Available-for-sale financial assets	h)	2,530
Loan impairment	i)	4,838
Amortised cost	j)	(3,470)
Deferred taxes	f)	(952)
Equity IFRS adjusted (with IAS 32 and 39)		**203,508**

Reconciliation of profit

Thousands of euros

		31.12.2004
Profit for the year (Bank of Portugal rules)		**53,451**
IFRS adjustments:		
Bonus to employees	a)	(9,225)
Pensions and health care benefits	c)	(1,196)
Long service benefits	d)	(202)
Intangible assets and deferred costs		(61)
Deferred taxes	f)	50
Profit for the year (IFRS comparable)		**42,817**

Explanation of the key transition adjustments made as at 1 January 2004

a) Bonus to employees

In accordance with the previous accounting policies of the Group, bonuses were accounted for as a deduction from equity in the year they were paid, as they were considered to be a transfer of the rights to the dividends from the shareholders to the employees. Under IFRS, these bonuses are charged to the income statement in the year to which they relate.

The impact with the IFRS adoption led to a decrease in consolidated equity in the amount of euro 9,225 thousand as at 31 December 2004 (1 January 2004: euro 4,548 thousand) and a decrease in the consolidated profit of the year ended 31 December 2004 in the amount of euro 9,225 thousand.

b) Fund for general banking risks

According to the previous accounting policies adopted, the Group booked a fund for general banking risks which aimed to cover non-specific unidentified banking risks inherent to the Group's activity, based on a prudent criteria established by the Board of Directors.

As at 1 January 2004, under IFRS, this fund was reversed. The impact in consolidated equity as at 31 December 2004 amounted to euro 2,110 thousand (1 January 2004: euro 2,110 thousand).

c) Pensions and health care benefits

In accordance with the accounting policy described in Note 2.15, under IFRS 1, the Group decided to apply retrospectively IAS 19 at transition date. Therefore it has recalculated retrospectively actuarial gains and losses which will be deferred using the corridor method.

Since the previous accounting policies of the Group, established by the Bank of Portugal under regulation no. 12/2001, already allowed the deferral of actuarial gains and losses in accordance with the corridor method, the adjustments made at transition date reflect mainly the impact of the recognition of (i) the early retirement costs that were previously deferred in the balance sheet, (ii) health care benefits previously accounted for on a cash basis.

In accordance with Bank of Portugal rules, early retirements costs (retirements by disability before 65 years of age) were amortised over a 10 year period. Under IFRS, these costs are fully recognised in the year when the retirements occur.

Additionally, with the adoption of IAS 19, the liabilities with health care benefits attributed to employees upon retirement are recognised based on actuarial valuations made at balance sheet date.

d) Long-service benefits

In accordance with the collective labour agreement for the banking sector in Portugal, BES Group has assumed the commitment to pay the current employees that achieve 15, 25 or 30 years of service within the Group, a long-service premium corresponding to 1, 2 or 3 month of their effective monthly remuneration. It has been the practice in the Portuguese market to account for such benefits on a cash basis. With the adoption of IAS 19, the Group has accounted for the present value of this liability following an actuarial valuation.

As at 31 December 2004, the impact with the adoption of IFRS led to a decrease in consolidated equity in the amount of euro 1,404 thousand (1 January 2004: euro 1,202 thousand) and a decrease in the consolidated profit for the year ended 31 December 2004 in the amount of euro 202 thousand.

e) Changes in the consolidation scope

Following the adoption of IAS 27, the Group began to consolidate certain investments that under the Bank of Portugal rules were valued at acquisition cost, being the unrealised losses at the end of the year provided for under Bank of Portugal regulation nr 4/2002.

f) Deferred taxes

According to the previous accounting policies of the Group, deferred tax assets were not recognised. Following the adoption of IFRS, the Group recognises deferred tax assets (in accordance with IAS 12), when it is probable that future tax profits will be available to absorb deductible temporary differences, including tax losses.

The application of IAS 12 implied the recognition by the Group of the total deferred tax asset calculated on the differences between tax and IFRS balance sheet, resulting in the recognition of a deferred tax asset as at 31 December 2004 in the amount of euro 1,592 thousand (1 January 2004: euro 1,542 thousand) and, as at 1 January 2005, a deferred tax liability in the amount of euro 952 thousand.

Explanation of the major transition adjustments related to the adoption of IAS 32 and IAS 39 as at 1 January 2005

g) Derivative financial instruments and hedge accounting

Under IAS 39, all derivative instruments are recognised in the balance sheet at fair value, including hedging derivatives. In accordance with the accounting policies previously adopted by the Group, hedging derivatives were recognised at its notional amount as an off balance sheet item, the interest being accrued in the balance sheet.

Additionally, IAS 39 defines more strict criteria to elect derivative financial instruments as hedging instruments, which implied a reclassification to the trading portfolio of contracts previously classified as hedging instruments.

The adoption of IAS 39 as at 1 January 2005, led to a decrease in consolidated equity in the amount of euro 6,136 thousand. This amount includes (i) a decrease of euro 4 637 thousand related to the impact of the reclassification of hedging derivatives to the trading portfolio, (ii) a decrease of euro 331 thousand relating to the recognition of embedded derivatives and (iii) a decrease of euro 1,168 thousand related to the impact of hedging operations.

h) Available-for-sale financial assets

Under IFRS, the available-for-sale financial assets are recognised at fair value, with the unrealised gains and losses recognised in the fair value reserve, except when an impairment loss exists, in which case it is charged against income. Impairment losses on equity securities cannot be reversed through income, as opposed to the procedure followed for debt securities.

In accordance with the previous accounting policies adopted by the Group, the available-for-sale financial assets were recognised at the lower of cost or market value. The unrealised losses were fully provided for against the income statement and unrealised gains were not recognised. Increases in the market value of securities previously provided for, such as debt or equity securities, were recognised in income as a write-back of provisions.

Equity holdings that were not consolidated or accounted for under the equity method were recorded at acquisition cost and unrealised losses, determined at balance sheet date, based on the average market price of the last six month, were provided for over a period of five to ten years, as set forth in the Regulation no. 4/2002 of the Bank of Portugal. Unrealised gains were not recognised.

With the adoption of IAS 39, as at 1 January 2005, the net effect of the recognition of unrealised gains and losses led to an increase in consolidated equity in the amount of euro 2,530 thousand.

i) Loan impairment

In accordance with the previous accounting policies adopted by the Group, provisions for loans and advances to customers were set up in accordance with Bank of Portugal Regulations nos. 3/95, 2/99 and 8/2003. At the same time, this supervisory authority has established the obligation of the entities under its supervision to submit, twice a year, a report analysing economic provisions to cover the specific risk in the loans portfolio. In the application of the Bank of Portugal regulations, in the calculation of loan losses provisions, there was an overriding requirement that the provisions should be sufficient for economic purposes.

In accordance with IAS 39, the loan portfolio is measured at amortised cost and subject to impairment tests. Impairment losses to be recognised are determined as the difference between the carrying amount of the loan and the present value of future expected cash flows, discounted at the loan's original effective interest rate. This method considers two main aspects: i) the recoverable amount based on an economic analysis of the portfolio and ii) the present value of expected future cash flows discounted at the original effective interest rate.

As at 1 January 2005, the impact of the adoption of IAS 39, which mainly relates to the application of the discounted cash flow method in the calculation of impairment losses on the loan portfolio which was not required by the Bank of Portugal rules, led to an increase in consolidated equity in the amount of euro 4,838 thousand.

j) Amortised cost

In accordance with the previous accounting policies adopted by the Group, fees and commissions received and paid related to the loan portfolio were charged to income in the year the loan was granted. Under IFRS, fees and commissions that are part of the effective interest rate of the loan are recognised as an adjustment to the effective interest rate of that loan.

As at 1 January 2005, the adoption of IAS 39 led to a decrease in consolidated equity in the amount of euro 3,470 thousand.

Note_39
Recently issued pronouncements

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, can be analyzed below.

The Group is evaluating the impact of adopting these recently issued pronouncements and has not yet completed the analysis.

IFRIC 8 – Scope of IFRS 2

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 12 January 2006 an Interpretation—IFRIC 8 Scope of IFRS 2, which is effective for annual periods beginning on or after 1 May 2006.

The Interpretation clarifies that the accounting standard IFRS 2 Share-based Payment applies to arrangements where an entity makes share based payments for apparently nil or inadequate consideration.

IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies.

The Amendment has not yet been endorsed by the European Commission (EC).

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 16 December 2004 an Interpretation—IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, which is effective for annual periods beginning on or after 1 January 2006.

IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning plant (such as nuclear plant) or equipment (such as cars) or in undertaking environmental restoration or rehabilitation (such as rectifying pollution of water or restoring mined land).

IFRIC 4 Determining whether an Arrangement contains a Lease.

The International Financial Reporting Interpretations Committee (IFRIC) has released on 2 December 2004 an Interpretation— IFRIC 4 Determining whether an Arrangement contains a Lease, which is effective for annual periods beginning on or after 1 January 2006.

IFRIC 4 gives guidance on determining whether arrangements that do not take the legal form of a lease (e.g. some take-or-pay contracts) should, nonetheless, be accounted for in accordance with IAS 17 Leases. It specifies that an arrangement contains a lease if it depends on the use of a specific asset and conveys a right to control the use of that asset.

IFRS 6 Exploration for and Evaluation of Mineral Resources

The International Accounting Standards Board (IASB) issued on 9 December 2004 International Financial Reporting Standard 6 Exploration for and Evaluation of Mineral Resources (IFRS 6). The publication of this IFRS provides, for the first time, guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets, and completes the first step in the IASB's project to achieve the convergence of widely varying accounting practices for extractive activities around the world.

IFRS 6 is effective for annual periods beginning on or after 1 January 2006. However, earlier application is encouraged, and if an entity adopts IFRS 6 before 1 January 2006, transitional relief is available for some comparative disclosures.

This standard will not impact the Group's financial statements.

Amendment to IAS 19 Employee Benefits

The International Accounting Standards Board (IASB) issued on 16 December 2004 an amendment to IAS 19 Employee Benefits, which is effective for annual periods beginning on or after 1 January 2006. The IASB has decided to allow the option of recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in a statement of recognised income and expense.

Until now IAS 19 has required actuarial gains and losses (ie unexpected changes in value of the benefit plan) to be recognised in profit or loss, either in the period in which they occur or spread over the service lives of the employees. Many entities choose to spread the gains and losses. Under the amendment, entities that at present spread the gains and losses are not required to change their approach, but are now free to choose to do so.

The amendment also (a) specifies how group entities should account for defined benefit group plans in their separate or individual financial statements and (b) requires entities to give additional disclosures.

The IASB has previously signalled its intention to undertake a comprehensive project on post-employment benefits, looking at fundamental aspects of measurement and recognition.

Amendment to the hedge accounting provisions of IAS 39 Financial Instruments: Recognition and Measurement

The International Accounting Standards Board (IASB) issued on 14 April 2005 an amendment to the hedge accounting provisions of IAS 39 Financial Instruments: Recognition and Measurement.

The IASB developed this amendment after constituents raised concerns that it was common risk management practice for entities to designate the foreign currency risk of a forecast intragroup transaction as the hedged item and that IAS 39 (as revised in 2003) did not permit hedge accounting for this. Furthermore, IAS 39 (as revised in 2003) created a difference from US accounting requirements on this point.

Following publication of an Exposure Draft and extensive consultation with constituents, the IASB has decided to allow the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in consolidated financial statements. This is consistent with the provisions of the international accounting standard on foreign currency, IAS 21 The Effects of Changes in Foreign Exchange Rates.

Amendment to the fair value option in IAS 39 Financial Instruments: Recognition and Measurement

The International Accounting Standards Board (IASB) issued on 16 June 2005 an amendment to the fair value option in IAS 39 Financial Instruments: Recognition and Measurement. The amendment is effective for annual periods beginning on or after 1 January 2006, with earlier application encouraged.

The IASB developed this amendment after commentators, particularly supervisors of banks, securities companies and insurers, raised concerns that the fair value option contained in the 2003 revisions of IAS 39 might be used inappropriately. The option allowed entities to designate irrevocably on initial recognition any financial instruments as ones to be measured at fair value with gains and losses recognised in profit or loss. The purpose of the option was to simplify the application of the standard.

Following publication of an exposure draft on the 21 April 2004 and extensive consultation with interested parties, the IASB has decided to revise the fair value option by limiting its use to those financial instruments that meet certain conditions.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures

The International Accounting Standards Board (IASB) issued on 18 August 2005 International Financial Reporting Standard (IFRS) 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures.

The IFRS introduces new requirements to improve the information on financial instruments that is given in entities' financial statements. It replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and some of the requirements in IAS 32 Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces requirements for disclosures about an entity's capital.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts

The International Accounting Standards Board (IASB) issued on 18 August 2005 amended requirements for financial guarantee contracts, in the form of limited amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts.

The amendments are intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. The amendments define a financial guarantee contract as a 'contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument'. These contracts could have various legal forms, including a guarantee, some types of letter of credit, or a credit insurance contract.

Issuers must apply the amendments for annual periods beginning on or after 1 January 2006.

Amendment to International Accounting Standard (IAS) 21 The Effects of Changes in Foreign Exchange Rates

The International Accounting Standards Board (IASB) issued on 15 December 2005 a limited amendment to International Accounting Standard (IAS) 21 The Effects of Changes in Foreign Exchange Rates. The amendment clarifies the requirements of IAS 21 regarding an entity's investment in foreign operations and will therefore help the financial reporting of entities that invest in businesses operating in a currency different from that used by the entity.

The Amendment has not yet been endorsed by the European Commission (EC).

3.
Report and Opinion of the Supervision Board (Consolidated Accounts)

Dear Shareholders,

1. In accordance with applicable legislation, we hereby present our report on the audit activity performed and our opinion on the Consolidated Annual Report and Accounts including the Consolidated Balance Sheet, Consolidated Profit and Loss and Cash-flow Statements and Changes in Shareholders' Funds Statements and related Notes for the year ended and as at 31st December 2005, presented to us by the Board of Directors of Banco Espírito Santo de Investimento, S.A., which we have examined.

2. These financial statements were examined in the light of the Independent Report and Statutory Audit issued by the Official Auditor, with which we agree.

3. The management report on the consolidated accounts is consistent with the consolidated accounts and provides adequate explanation.

4. It is our opinion therefore, based on our examination, that the above-mentioned financial statements have been prepared in accordance with law and the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together the "IFRS") endorsed by the European Union ("EU"), and that the financial statements represent a true and fair view of the companies included within the scope of consolidation financial situation as at and for the year ended 31st December 2005 and the net profit or loss position for the year ended 31st December 2005.

5. In view of the above and taking into account the Independent Auditor's Report and Statutory Audit, we are of the opinion that:

the consolidated Annual Report and Accounts for "Banco Espírito Santo de Investimento, S.A.", including the Consolidated Balance Sheet, Consolidated Profit & Loss and Consolidated Cash-Flow Statements and the Changes in Shareholders' Funds Statements for the year ended and as at 31st December 2005 and related Notes be approved.

Lisbon, 15th March 2006

THE SUPERVISORY BOARD

Chairman – José Manuel Macedo Pereira
- Tito Manuel das Neves Magalhães Basto

José Maria Ribeiro da Cunha representing:
"AMAVEL CALHAU, RIBEIRO DA CUNHA E ASSOCIADOS
- Sociedade de Revisores Oficiais de Contas -"

4.
Official Auditor's Report (Consolidated Accounts)

1. In accordance with applicable legislation, we hereby present our report on the audit performed by us on Grupo Banco Espírito Santo de Investimento, S.A.'s (the "Group") Annual Report and Consolidated Accounts as at and for the year ended 31st December 2005.

2. We have conducted our audit in accordance with applicable Rules and Auditing Standards in Portugal (Recommendations by the Portuguese Institute of Chartered Accountants - *Directrizes de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas*) which includes the examination of the scope and basis of consolidation and related adjustments.

3. Our audit examination was based on the opinions expressed by the official or other auditors of the various companies included within the scope of consolidation. Our opinion cannot therefore be considered separately from the opinion of the referred to auditors.

   We note that the financial accounts of the companies within the scope of consolidation have not yet been approved by the shareholders at their respective Annual General Meetings.

4. As at 31st December 2005, the Group had direct and / or indirect financial holdings, in:

   - 15 subsidiary companies (where the Group had control), and
   - 11 associated companies (where the Group had a significant shareholding or management control).

   In 2005, the Group included in its scope of consolidation all associated and subsidiary companies where it had a 20% or greater shareholding, held directly or indirectly, or had management control or a significant influence on their management.

5. Two different consolidation methods were used, namely:

   a) Subsidiary companies (the equity shareholdings in companies where the Group had control) were fully consolidated; and
   b) Associated companies (the equity shareholdings in companies where the Group had the power to govern the financial or operating policies of the entity) were consolidated using the equity accounting method, i.e.: the equivalent percentage of total value of the company's shareholders' funds as that of BES Investimento's equity shareholding in that company.

6. Based on careful analysis of the basis for consolidation and related adjustments, we report that net consolidated assets amounted to 3,612.566 million euros, consolidated shareholders' funds amounted to 210.170 million euros and consolidated net profits amounted to 50.019 million euros.

7. The consolidated financial statements, namely the Balance Sheet Statement as at 31st December 2005 and Profit & Loss Statement for the year ended 31st December 2005 and related Notes:

- Included the accounts for BES Investimento, S.A. and those of twenty-six subsidiary and associated companies;

- Were prepared in accordance with generally accepted accounting standards in the EU (IFRS); and

- Present a true and fair view of the Group's financial situation notwithstanding point 3 above.

Lisbon, 15th March 2006

José Maria Ribeiro da Cunha representing:
"AMAVEL CALHAU, RIBEIRO DA CUNHA E ASSOCIADOS
- Sociedade de Revisores Oficiais de Contas -"

5.
Statutory audit and Independent Auditor's Report (Consolidated Accounts)

INTRODUCTION

1. In accordance with applicable legislation, we hereby present our Statutory Audit and Independent Auditor's Report on the financial information included in the Annual Report and Consolidated Accounts as at and for the year ended 31st December 2005 of the Grupo Banco Espírito Santo de Investimento, S.A. (the "Group"). The financial information includes a Consolidated Balance Sheet Statement (which reports consolidated assets of 3,612.566 million euros, consolidated shareholders' funds of 210.170 million euros and consolidated net profits of 50.019 million euros), a Consolidated Profit & Loss Statement, a Consolidated Cash-Flow Statement and a Consolidated Changes in Shareholders' Funds Statement as at and for the year ended 31st December 2005 and related Notes.

2. The amounts included in the financial statements and additional financial information are consistent with the underlying financial and accounting records.

RESPECTIVE RESPONSABILITY

3. The Board Directors are responsible for:

a) The preparation of the consolidated financial statements in accordance with generally accepted accounting standards (IFRS) as endorsed by the EU. The financial statements must present a true and fair view of the financial situation of the companies included within the scope of consolidation, and of its consolidated profit and loss and consolidated cash-flow positions;

b) The historical financial information must be prepared in accordance with generally accepted accounting principles and present a complete, true and fair, to date, transparent, objective and lawful view of the financial situation of the Group in accordance with the Securities' Market Code;

c) Adopting appropriate accounting policies and criteria;

d) Maintaining necessary and sufficient internal controls; and

e) Disclosing any relevant factor that may have affected the operations, financial situation or results of the group of companies included within the scope of consolidation.

4. We are responsible for auditing the financial information included in the financial statements and for issuing an independent and professional report on whether the information is complete, true and fair, to date, transparent, objective and lawful, as required by the Securities' Market Code.

SCOPE

5. Our audit was performed in accordance with applicable Rules and Auditing Standards in Portugal (Recommendations by the Portuguese Institute of Chartered Accountants - *Directrizes de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas*) which require us to plan and perform our audit so as to obtain reasonable assurance that the consolidated financial statements are free from material misstatement. Our audit therefore included:

   - An examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and of the significant estimates based on the judgements made and the criteria defined by the Board of Directors in the preparation of the financial statements;

   - Verification as to whether the consolidation rules have been consistently applied;

   - An assessment of whether the accounting policies were appropriate to the circumstances of the Group and that these were adequately disclosed;

   - Verification as to whether the going-concern principle is applicable;

   - An assessment of whether the financial statements present a sufficient representation of the company's overall financial situation; and

   - An assessment of whether the financial information presented is complete, true and fair, to date, transparent, objective and lawful.

6. Our audit also included an examination that the amounts disclosed in the Consolidated Accounts and in the Annual Report are consistent with the amounts presented in the company's books and underlying financial and accounting records.

7. We believe that our audit provides a reasonable basis to express our opinion.

OPINION

8. It is our opinion that the consolidated financial statements referred to above present a true and fair view, in all material aspects, of the consolidated financial situation of "Grupo Banco Espírito Santo de Investimento, S.A.", as at and for the year ended 31st December 2005, and that the Consolidated Profit & Loss and Consolidated Cash-Flow Statements, prepared in accordance with the generally accepted accounting principles in the EU (IFRS), and all information contained therein is complete, true, to date, transparent, objective and lawful.

Lisbon, 15th March 2006

Dr. José Maria Ribeiro da Cunha representing:
"AMAVEL CALHAU, RIBEIRO DA CUNHA E ASSOCIADOS
- Sociedade de Revisores Oficiais de Contas -"

6.
Auditors' Report

Introduction

1. We have audited the accompanying consolidated financial statements for the year ended 31 December 2005, of Banco Espírito Santo de Investimento, S.A., which comprise the consolidated balance sheet as at 31 December 2005 (showing total consolidated assets of Euros 3,612,566 thousand and total equity attributable to the equity holders of the Bank of Euros 210,170 thousand, including a profit for the year attributable to the equity holders of the Bank of Euros 50,019 thousand), the consolidated statements of income, of cash flows and of changes in equity for the year then ended and the corresponding Notes to the accounts.

Responsibilities

2. The Board of Directors is responsible for:

   a) the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, that present fairly, in all material respects, the consolidated financial position of the Bank, the consolidated results of its operations and its cash flows;

   b) the adoption of adequate accounting policies and criteria; and

   d) maintaining an appropriate system of internal control.

3. Our responsibility is to issue a professional and independent report based on our audit.

Scope

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

- verification that the financial statements of the companies included in the consolidation have been properly audited and, in those significant cases in which they were not, verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;

- verification of the consolidation procedures and of the application of the equity method;

- assessment of the appropriateness of the accounting policies used and of their disclosure, taking into account the circumstances applicable;

- verification of the application of the going concern principle; and

- assessment of the appropriateness of the overall presentation of the financial statements.

5. Our review also included the verification that the consolidated financial information contained in the Annual Report of the Board of Directors is consistent with the financial statements presented.

6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the consolidated financial statements referred to above present fairly in all material respects the consolidated financial position of Banco Espírito Santo de Investimento, S.A. as at 31 December 2005, the consolidated results of its operations and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

Lisbon, 30 March 2006

KPMG & Associados, SROC, S.A.
Represented by
Inês Maria Bastos Viegas Clare Neves Girão de Almeida
(ROC n. 967)

7.
Individual financial statements

7.1
Income Statement for the years ended 31 December 2005 and 2004

in thousands of euros

	Notes	31.12.2005	31.12.2004
Interest and similar income	4	44,850	20,346
Interest expense and similar charges	4	35,366	16,498
Net interest income		**9,484**	**3,848**
Dividend Income		51,187	17,897
Fee and commission income	5	19,704	18,891
Fee and commission expense	5	(3,993)	(10,307)
Net gains from financial assets at fair value through profit or loss	6	13,390	15,835
Net gains from available-for-sale financial assets	7	(394)	(375)
Net gains from foreign exchange differences	8	325	209
Other operating income		23,721	27,284
Operating income		**113,424**	**73,282**
Staff costs	9	20,556	18,009
General and administrative expenses	11	14,026	11,272
Depreciation and amortisation	21 and 22	1,129	1,089
Provisions net of reversals	28	(1,952)	5,810
Loans impairment net of reversals	18	5,999	205
Impairment on other financial assets net of reversals	16, 17 and 23	(801)	466
Impairment on other assets net of reversals	24	(39)	-
Operatng expenses		**38,918**	**36,851**
Gains on disposal of investments in subsidiaries and associates		16	26
Profit before income tax		74,522	36,457
Income tax			
Current tax	29	23,376	7,276
Deferred tax	29	(16,400)	178
		67,546	29,003
Profit for the year		**67,546**	**29,003**
Basic earnings per share (in Euros)	12	4,82	2,07
Diluted earnings per share (in Euros)	12	4,82	2,07

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

The Chief Accountant

The Board of Directors

7.2
Balance sheet as at 31 December 2005 and 2004

in thousands of euros

	Notes	31.12.2005	31.12.2004
Assets			
Cash and deposits at central banks	13	2,497	4,081
Deposits with banks	14	5,120	1,342
Financial assets at fair value through profit or loss	15	198,751	217,161
Available-for-sale financial assets	16	98,813	77,259
Loans and advances to banks	17	66,669	237,739
Loans and advances to customers	18	523,495	381,297
Hedging derivatives	19	1,718	2,048
Non-current assets held for sale	20	31,720	-
Property and equipment	21	3,319	2,686
Intangible assets	22	924	736
Investments in subsidiaries and associates	23	37,391	9,021
Current income tax assets		3,522	2,067
Deferred income tax assets	29	17,040	1,511
Other assets	24	520,221	181,074
Total assets		**1,511,200**	**1,118,022**
Liabilities			
Financial liabilities at fair value through profit or loss	15	292,045	130,097
Deposits from banks	25	494,458	652,243
Due to customers	26	137,248	73,273
Debt securities issued	27	24,509	9,299
Hedging derivatives	19	2,068	1,590
Provisions	28	11,638	12,777
Current income tax liabilities		25,091	8,649
Subordinated debt	30	99,653	57,028
Other liabilities	31	272,624	42,586
Total liabilities		**1,359,334**	**987,542**
Equity			
Share capital	32	70,000	70,000
Share premium	32	8,796	8,796
Fair value reserve	33	988	-
Other reserves and retained earnings	33	4,536	22,681
Profit for the year		67,546	29,003
Total equity		**151,866**	**130,480**
Total equity and liabilities		**1,511,200**	**1,118,022**

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

The Chief Accountant

The Board of Directors

7.3
Non-Consolidated Cash Flow Statement for the Years ended 31 December 2005 and 2004

in thousands of euros

	Notes	31.12.2005	31.12.2004
Cash flows arising from operating activities			
Interest and similar income received		46,213	154,161
Interest expense and similar charges paid		(33,930)	(119,172)
Fee and commission income received		49,277	18,891
Fee and commission expense paid		(3,993)	(10,307)
Cash payments to employees and suppliers		1,754	(25,968)
		59,321	**17,605**
Changes in operational assets and liabilities:			
Cash and deposits at central banks		1,583	(814)
Financial assets at fair value through profit or loss		193,987	(68,488)
Loans and advances to banks		170,975	(158,386)
Deposits from banks		(158,315)	379,556
Loans and advances to customers		(153,029)	(133,523)
Due to customers		63,641	(32,691)
Hedging derivatives		(5,893)	-
Other operational assets and liabilities		(180,563)	(9,685)
Net cash flow from operating activities before income taxes		**(8,293)**	**(6,426)**
Income taxes paid		(8,389)	(288)
Net cash flow arising from operating activities		**(16,682)**	**(6,714)**
Acquisition of subsidiaries and associates		(35,050)	(267)
Disposal of subsidiaries and associates		17	711
Dividends received		51,187	17,897
Acquisition of available-for-sale financial assets		(53,282)	(11,750)
Sale of available-for-sale financial assets		29,521	13,018
Acquisition of tangible and intangible assets		(882)	(1,335)
Sale of tangible and intangible assets		3,165	62
Cash flows arising from financing activities		**(5,324)**	**18,336**
Proceeds from issue of cash bonds		16,316	9,150
Reimbursement of cash bonds		-	(3,603)
Proceeds from issue of subordinated debt		60,000	-
Reimbursement of subordinated debt		(19,952)	-
Dividends paid from ordinary shares		(31,272)	(18,795)
Net cash flow from financing activities		**25,092**	**(13,248)**
Effect of exchange rate changes on cash and cash equivalents		692	1,066
Net changes in cash and cash equivalents		**3,778**	**(560)**
Cash and cash equivalents at the beginning of the year		**1,351**	**1,911**
Cash and cash equivalents at the end of the year		**5,129**	**1,351**
		3,778	**(560)**
Cash and cash equivalents include:			
Cash	13	9	9
Deposits with banks	14	5,120	1,342
Total		**5,129**	**1,351**

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

7.4
Statement of Chances in non-consolidated Equity for the years ended 31 December 2005 and 2004

in thousands of euros

	Share Capital	Share premium	Fair value reserve	Other reserves and retained earnings	Profit for the year	Total equity
Balance as at 1 January 2004 NCA (excluding IAS 32 and IAS 39)	**70,000**	**8,796**	**-**	**19,920**	**16,736**	**115,452**
Dividends on ordinary shares [a]	-	-	-	(1,479)	(11,245)	(12,724)
Regulation nr. 4/2002 (see Note 2.5)	-	-	-	(1,251)	-	(1,251)
Transfer to reserves	-	-	-	5,491	(5,491)	-
Profit for the year	-	-	-	-	29,003	29,003
Balance as at 31 December 2004 NCA (excluding IAS 32 and IAS 39)	**70,000**	**8,796**	**-**	**22,681**	**29,003**	**130,480**
Effect of adoption of IAS 32 and IAS 39	-	-	403	(2,713)	-	(2,310)
Balance as at 1 January 2005 NCA	**70,000**	**8,796**	**403**	**19,968**	**29,003**	**128,170**
Dividends on ordinary shares [a]	-	-	-	(20,000)	(24,792)	(44,792)
Changes in fair value, net of taxes	-	-	585	-	-	585
Transfer to reserves	-	-	-	4,211	(4,211)	-
Impact of ES Dealer merger	-	-	-	357	-	357
Profit for the year	-	-	-	-	67,546	67,546
Balance as at 31 December 2005	**70,000**	**8,796**	**988**	**4,536**	**67,546**	**151,866**

(a) Corresponds to a dividend per share of 3.20 euros and 0.91 euros as at 31 December 2005 and 2004, respectively.
The following notes form an integral part of these financial statements.

8.
Notes to the individual financial statements as at 31 December 2005

Note_1
Activity

Banco Espírito Santo de Investimento, S.A. (Bank or BESI) is an investment bank headquartered in Portugal, Rua Alexandre Herculano, n.º 38, in Lisbon. The Bank is authorized by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches are located.

The company was established in February 1983 as a foreign investment in Portugal under the name FINC– Sociedade Portuguesa Promotora de Investimentos, S.A.R.L. During 1986 the company was integrated into the Espírito Santo Group under the designation of Espírito Santo - Sociedade de Investimentos, S.A..

In order to enlarge the scope of its business, the company obtained permission from the Portuguese authorities to operate as an investment bank. This involved the publication of Order-in-Council no. 366/92, November 23, published in the Diário da República – Series II – no. 279, December 3. The activity as an investment bank started under the name Banco ESSI, S.A., on April 1, 1993.

During 2000, Banco Espírito Santo, S.A. (BES) acquired all of the share capital of BESI in order to reflect in its consolidated accounts all the synergies generated by both institutions.

BESI currently operates through its headquarters in Lisbon, a branch in London and through its subsidiaries in Brazil, Ireland and Spain.

BESI financial statements are consolidated by Banco Espírito Santo, S.A., headquartered at Avenida da Liberdade, n.º 195, Lisbon and by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.

Note_2
Summary of significant account principles

2.1
Basis of preparation

For all periods up to and including the year ended 31 December 2004, Banco Espírito Santo de Investimento, S.A. prepared its financial statements in conformity with generally accepted accounting principles in Portugal for the banking industry, as established by the Bank of Portugal.

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 2002 and Regulation no. 1/2005 from the Bank of Portugal, Banco Espírito Santo de Investimento, S.A. ("BESI" or "the Company") is required to prepare its financial statements in accordance with Adjusted Accounting Standards (NCA), as established by the Bank of Portugal, from 2005.

NCA are composed by all the standards included in the International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU'), with the exception of issues regulated by the Bank of Portugal such as the Loans impairment and the recognition in retained earnings of the adjustments related with pensions calculated at the transition date.

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 non-consolidated financial statements for the year ended 31 December 2005 were prepared in accordance with the NCA which include the IFRS effective and adopted for use in the EU until 31 December 2005.

These financial statements are expressed in thousands of euros and have been prepared under the historical cost convention, as modified by the revaluation of derivative contracts, financial assets at fair value through profit or loss, available-for-sale investments, and recognised assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is 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.

Following a decision taken by the Espírito Santo Dealer, S.A. (ES Dealer) Board of Directors, the company was merged into Banco Espirito Santo de Investimento, S.A. As at 31 December 2005, BESI balance sheet includes all the assets and liabilities that were from ES Dealer. As such, the financial statements as at 31 December 2005 and 2004 are not comparable.

These financial statements were approved in the Board of Directors meeting held on 10 March 2006.

Transition to NCA

In preparing these financial statements for the year ended 31 December 2005 and in determining transition adjustments, the Bank has elected to apply certain transition provisions within IFRS 1 – First-time Adoption of International Financial Reporting Standards, namely the exemptions on comparative financial information and on the retrospective application of IFRS.

The most significant of these provisions is the exemption from presenting comparative information in accordance with IAS 32 - Financial Instruments: Disclosure and Presentation, and IAS 39 - Financial Instruments: Recognition and Measurement. Therefore, comparative figures for 2004 include the financial instruments recognised and measured in accordance with the previous accounting policies of the Bank which are described below. However, in order to allow for comparability, the values of financial instruments for the comparative period were reclassified to conform to the 2005 presentation.

An explanation of how the transition to NCA has affected the reported financial position and financial performance of the Bank is provided in Note 37.

2.2
Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined.

2.3
Derivative financial instruments and hedge accounting

From 1 January 2005

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 a hedging instrument 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 hedge 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 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 fair value hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

• Cash flow hedge

Where 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 affects the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

During the periods covered by these financial statements the 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.

Until 31 December 2004

Until 31 December 2004, the accounting for derivative financial instruments was dependent upon whether they were contracted for trading or hedging purposes.

Derivative financial instruments were classified as hedging instruments if they complied, cumulatively, with the following conditions:

- *the position to be hedged was clearly identified and exposed the Bank to the risk of losses arising from potential changes in interest rates, prices and credit risk that certain assets, liabilities, off-balance sheet items and cash-flows might be exposed to;*
- *were specifically classified as hedging in the Bank's internal documentation;*
- *changes in value in the derivative financial instrument were correlated with changes in opposite direction in the position to be hedged, such that the hedging instrument was efficient, eliminating or reducing considerably the risk of a loss in the hedged position, from the beginning of the contract until its maturity.*

There were no specific requirements to demonstrate the effectiveness of the hedging relationship, neither retrospectively nor prospectively.

Derivate financial instruments that did not comply with the above-mentioned conditions were accounted for as trading positions.

Hedging derivatives were accounted for in off balance sheet accounts at their notional amounts until maturity dates and interests and premiums were recorded on an accrual basis. Results obtained from hedging contracts were accounted for in accordance with the same principle followed to the results with the opposite sign of the hedged items.

Trading derivatives were marked to market with changes recognised in the profit and loss account.

If a derivative instrument classified as hedge was sold, settled before its maturity or transferred to the trading portfolio, the respective gain or loss was immediately recognised in the statement of income. If the hedged item was sold, or the hedge ceased to be effective, the corresponding derivative instrument was immediately reclassified as a trading instrument.

There were no specific requirements regarding embedded derivatives.

2.4
Loans and advances to customers

From 1 January 2005

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 par value and can not be reclassified to other financial assets categories.

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 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.

Where 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.

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 group and 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 based on a prudent and rigtheousness criteria in order to reflect at all time its realizable value. This impairment adjustment must be equal or greater than the determined under the regulation nr. 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. Subsequent recoveries of amounts previously written off decrease the amount of the loan impairment loss recognised in the income statement.

Until 31 December 2004

Loans and advances to customers included loans and advances originated by the Bank. Loans and advances were recognised when cash was advanced to borrowers and were reported at their outstanding principal amount less provisions for loan losses determined in accordance with the applicable requirements issued by the Bank of Portugal.

Provisions for loan losses included:

(i) a specific provision for overdue loans and interest, presented as a deduction from assets, and was calculated at rates varying between 1% and 100% on overdue loans and interest, according to risk classification and whether secured or unsecured with collaterals;

(ii) a specific provision for doubtful loans, shown as a deduction from assets, at a percentage no less than 50% of the average coverage provision of overdue loans, applied to the outstanding instalments of loans to any single customer, where it was ascertained that the overdue instalments of principal and interest exceeded 25% of principal outstanding plus overdue interest; and

(iii) a general provision for credit risks, presented as a liability, corresponding to a minimum of 1% of total performing loans, including guarantees and other instruments, except for consumer loans, where the provisioning rate was at least 1.5% of such loans, and for mortgage loans or real estate financial lease, whenever the real estate asset (collateral) was for borrower's own use, where the provisioning was of 0.5%.

After the application of the above loan losses provision procedures, there was an overriding requirement that the provision should be sufficient to cover the economic risk of the portfolio.

Loans (and the related provisions) were normally written off, either partially or in full, when there was no realistic perspective of recovery of the amounts due and when the proceeds from the realisation of the collateral had been received.

2.5
Other financial assets

From 1 January 2005

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 and (ii) financial assets that are designated at fair value through profit or loss at inception.

• 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 to maturity.

• 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 investments 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 method and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest 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.

Financial instruments whose fair value cannot be reliably measured are carried at cost.

Reclassifications between categories

In accordance with IAS 39, the Bank does not reclassify, after initial recognition, a financial instrument into or out of the fair value through profit or loss category.

Impairment

According to 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 listed securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for unlisted 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.

Until 31 December 2004

• Trading securities

Trading securities as at 31 December 2004 were reclassified, in order to conform to the 2005 presentation, as financial assets at fair value through profit or loss.

Trading securities were those purchased for resale within a maximum period of six months.

Bonds and other fixed income securities were marked to market, plus accrued and uncollected interest. Unlisted bonds were valued at the lower of cost or estimated realisable value, plus accrued interest, calculated at the nominal interest rate. Unrealised gains and losses and interest were accounted for as income or expenses of the period.

Shares and other variable income securities were marked to market, or if unlisted, at the lower of cost or presumed market value. Gains or losses in shares that featured in the indexes of the Euronext Lisbon or in shares traded on other stock exchanges with adequate liquidity were recognised directly in the statement of income. Unrealised losses on securities not listed were fully provided for in the statement of income.

• Investment securities

Investment securities as at 31 December 2004 were reclassified, in order to conform to the 2005 presentation, as available-for-sale financial assets.

Investment securities were those purchased for resale, but usually held for more than six months, even though intended to be held to maturity, did not meet the requirements for such classification.

Bonds and other fixed income securities were shown at amortized cost. The difference between cost and par, representing the premium or discount at time of purchase, was amortized over the remaining life and recorded in the statement of income. Accrued interest was recognized as income and shown under Prepayments and accrued income. The value of zero coupon bonds included their respective accruals of interest.

Unrealised losses resulting from the difference between cost and market value, or if unlisted, between cost and presumed realizable value, were fully provided for and charged to the statement of income.

Shares and other variable income securities were recorded at cost. Unrealised losses resulting from the difference between cost and market value, or if unlisted, between cost and the estimated realizable value, were fully provided for in the statement of income.

• Bonds overdue

Unrealised losses with bonds overdue were provide, in accordance with the criteria for overdue loans without collateral, in accordance with the Bank of Portugal regulations (see Note 2.4).

• Other investments

Other investments as at 31 December 2004 included equity holdings of a strategic and long term nature, although the percentage of equity held was below 20%. Other investments were reclassified, in order to conform to the 2005 presentation, as available-for-sale financial assets.

The other investments were accounted for at acquisition cost net of the provisions made under Regulations no. 3/95 and no. 4/2002 of the Bank of Portugal.

Regulation no. 4/2002, effective from June 30, 2002, established the following rules for the provision of equity holdings:

- *The set-up of provisions was required whenever the unrealised losses in equity holdings were higher than 15% of the acquisition cost. The amount of provision corresponded to 40% of the unrealised losses that exceeded 15% of the acquisition cost;*
- *For the equity holdings, existing as at December 31, 2001, a transition rule was established that allowed the provision for the unrealised losses to be set up according to the following rule:*
  - *Financial and insurance companies: 10% each year during 10 years;*
  - *Non-financial companies: 25% each year for the first three years, 15% in fourth year and 10% in fifth year*

Increases in unrealised losses that occurred after June 30, 2002, during the transition period, related to the equity holdings existing as at December 31, 2001, were recorded in the period in which they occurred.

Decreases in the unrealised losses after June 30, 2002, that occurred during the transition period, with reference to the equity holdings as at December 31, 2001, could not result in a reduction in the levels of provisions to be set up in the transition period, except if the value of the provision set up exceeded what would be necessary if the transition rules were not applied.

Unrealised losses provided in 2004, 2003 and 2002 for equity holdings held as at December 31, 2001, were, in accordance with Regulation no. 4/2002, recognised against Reserves.

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 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 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. These financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest method, except for short sales which are measured at fair value.

If the Bank repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

2.8
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. Consideration paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs, as treasury stock.

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
Assets acquired in exchange for loans

Assets acquired in exchange for loans are reported in 'Other assets' and are initially recognised at the lower of their fair values and the carrying amount of the loans.

Subsequently, those assets are measured at the lower of their carrying amount and the corresponding fair values and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

The value of assets acquired in exchange for loans is periodically reviewed by the Bank.

2.11
Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost 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 financial period in which they are incurred.

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

	Number of years
Buildings	50
Improvements in leasehold property	10
Computer equipment	4 to 5
Fixtures	5 to 2
Furniture	4 to 10
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.

2.12
Intangible assets

Acquired or developed computer software or licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives, which is usually between three to six years.

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

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

2.13
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 amortisation 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.

2.14
Employee benefits

Pensions

To cover the liabilities assumed by the Bank within the framework stipulated by the ACT "Acordo Colectivo de Trabalho" for the banking sector, pension funds designed to cover retirement benefits on account of age, including widows and orphans benefits and disability were set up for the entire work force.

Additionally, in 1998, the Bank decided to set up an autonomous open-end pension fund to cover complementary pension benefits for employees and pensioners.

The funds are managed by ESAF – Espírito Santo Fundos de Pensões, S.A.

The pension plans of the Bank are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In the light of IFRS 1, the Bank decided to adopt, at transition date (1 January 2004), IAS 19 retrospectively and has recalculated the pension and other post-retirement benefits obligations and the corresponding actuarial gains and losses to be deferred in accordance with the corridor method allowed by this accounting standard.

The liability with pensions is calculated annually by the Bank, at the balance sheet date for each plan individually, using the projected unit credit method, and is reviewed by qualified independent actuaries. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Actuarial gains and losses determined annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions are recognised as an asset or liability and are recognised in the income statement using the corridor method.

This method establishes that the actuarial gains and losses accumulated at the beginning of the year that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the year, are charged to the income statement over a period that cannot exceed the average of the remaining working lives of the employees participating in the plan. The Bank has determined on the basis of the above criteria to amortise the actuarial gains and losses that fall outside the corridor during a 15 year period. The actuarial gains and losses accumulated at the beginning of the year that are within the corridor are not recognised in the income statement.

Annually the Bank recognises as a cost in the income statement a net total amount of (i) the service cost, (ii) the interest cost, (iii) the expected return on plan assets, (iv) a portion of the net cumulative actuarial gains and losses determined using the corridor method, and (v) the effect of curtailment losses related with early retirements, which includes the amortisation of the respective actuarial gains and losses.

The effect of the early retirements correspond to the increase in pension and health care liabilities due to retirements before the normal age of retirement, which is 65 years.

The Bank makes payments to the fund in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Health care benefits

The Bank provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and contribution on medical assistance expenses, diagnostics, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Bank to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, holiday and Christmas subsidy.

The measurement and recognition of the Bank's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above.

Long-service benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, the Bank has assumed the commitment to pay to current employees that achieve 15, 25 or 30 years of service within the Bank, long service premiums corresponding, respectively, to 1, 2 or 3 months of their effective monthly remuneration earned at the date the premiums are paid.

In the case of disability the employees have the right to a long-service benefit in the amount of the proportion of the one they would receive if they remained active.

These long-service benefits are accounted for by the Bank in accordance with IAS 19 as other long-term employee benefits.

The liability with long-service premiums is calculated annually, at the balance sheet date, by the Bank using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liabilities.

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

Bonus to employees

In accordance with the by-laws of certain Bank entities, annually the shareholders approve in the annual general meetings an amount to be paid to the employees as bonus, following a proposal made by the Board of Directors.

Bonus payments to employees are recognised in the income statement in the period to which they relate.

2.15
Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available-for-sale investments 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 in any 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, for all differences from the initial recognition of assets and liabilities that do not affect profit, as well as differences related with investments in subsidiaries. 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 utilised.

2.16
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.

2.17
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 investments, using the effective interest method. Interest income arising from non-derivative financial assets at fair value through profit or loss is also included under interest and similar income.

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.

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 points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component of the changes in their fair value is not separated out and is classified under net (losses)/gains from financial assets at fair value through profit or loss. For hedging derivatives of interest rate risk, the interest component of the changes in their fair value is recognised under interest and similar income or interest expense and similar charges.

2.18
Fee and commission income

Fees and commissions are recognised as follows:

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

2.19
Dividend income

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

2.20
Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with IAS 14, paragraph 6, the Bank does not disclose its segment reporting, since these financial statements are reported together with the Group's consolidated financial statements.

2.21
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.

During the periods covered by these financial statements, the Bank did not have any potential ordinary shares.

2.22
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 balance sheet date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with central banks.

Note_3
Critical accounting estimates, and judgements in applying accounting policies

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.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

3.1
Impairment of available for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgment 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 their values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could produce different financial results for a particular period.

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.

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 things, 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
Income taxes

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

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

The Tax Authorities are entitled to review the Bank determination of its 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 is confident that there will be no material tax assessments within the context of the financial statements.

3.5
Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

Note_4
Net interest income

This caption is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Interest and similar income		
Interest from loans and advances	17,507	9,118
Interest from deposits with banks	4,624	3,580
Interest from hedging derivatives	18,475	3,489
Interest from available-for-sale financial assets	1,337	1,011
Interest from financial assets at fair value through profit or loss	660	743
Other interest and similar income	2,247	2,405
	44,850	20,346
Interest expense and similar charges		
Interest from deposits from central banks and other banks	15,926	7,610
Interest from hedging derivatives	14,995	3,108
Interest from debt securities	589	161
Interest from amounts due to customers	1,924	1,830
Interest from subordinated debt	1,898	1,894
Other interest expense and similar charges	34	1,895
	35,366	16,498
	9,484	**3,848**

Note_5
Net fee and commission income

This caption is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Fee and commission income		
From banking services rendered to third parties	826	190
From guarantees granted	631	244
From transactions with securities	13,913	5,654
From commitments assumed to third parties	-	2,404
Other fee and commission income	4,334	10,399
	19,704	18,891
Fee and commission expense		
From banking services rendered by third parties	728	22
From transactions with securities	99	1,154
From guarantees received	23	29
Other fee and commission expense	3,143	9,102
	3,993	10,307
	15,711	**8,584**

Note_6
Net gains from financial assets at fair value through profit or loss

This caption is analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	522	606	(84)	1,493	1,689	(196)
Issued by other entities	6,940	534	6,406	5,933	3,058	2,875
Shares	23,530	16,873	6,657	12,367	3,716	8,651
Derivative financial instruments	510,810	510,399	411	147,687	143,182	4,505
	541,802	**528,412**	**13,390**	**167,480**	**151,645**	**15,835**

Note_7
Net gains from available-for-sale financial assets

This caption is analysed as follows:

milhares de euros

	31.12.2005			31.12.2004		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	9	3	6	1	-	1
Issued by other entities	1	374	(373)	559	59	500
Shares	-	27	(27)	-	876	(876)
	10	**404**	**(394)**	**560**	**935**	**(375)**

Note_8
Net gains from foreign exchange differences

This caption is analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	2,233	1,908	325	1,494	1,285	209
	2,233	**1,908**	**325**	**1,494**	**1,285**	**209**

This caption 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_9
Staff costs

This caption is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Wages and salaries	17,863	14,811
Remuneration	17,223	14,598
Long-service benefits (see Note 10)	640	213
Health-care benefits - SAMS (see Note 10)	132	112
Other mandatory social charges	1,060	1,026
Pension costs (see Note 10)	1,124	1,211
Other costs	377	849
	20,556	**18,009**

As at 31 December 2005 the salaries paid to the Board of Directors of BESI amounted to euro 4,477 thousand.

As at 31 December 2005 and 2004, the loans granted by the Bank to the Board of Directors of BESI amounted to euro 440 thousand and euro 382 thousand, respectively.

As at 31 de December 2005 the number of employees of the Bank is 185 (31 December 2004: 141).

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

	31.12.2005	31.12.2004
Senior Management	99	72
Management	21	24
Specific functions	43	27
Administrative functions	19	16
Auxilliary functions	3	2
	185	**141**

Note_10
Employee benefits

Pension and health-care benefits

In compliance with the collective labour agreement for the banking sector entered into with the unions, the Bank undertook to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force.

During 1998, Banco Espirito Santo and the Group's subsidiaries in Portugal, including BESI decided to set up an autonomous open-end pension fund – the Fundo de Pensões Aberto GES – to cover complementary pension benefits of pensioners and employees in service.

This pension fund in Portugal is managed by ESAF- Espírito Santo Fundo de Pensões, S.A.

The actuarial assumptions used to calculate pension liabilities, are as follows:

	Assumptions		Actual	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Financial assumptions				
Salaries increase rate	2.75%	2.75%	4.00%	2.56%
Pensions increase rate	1.75%	1.75%	2.50%	2.71%
Expected return of plan assets	5.25%	5.50%	8.61%	5.88%
Discount rate	4.75%	5.25%		
Demographic assumptions and Valuation methods				
Mortality table				
Men	TV 73/77(adjusted)	TV 73/77		
Women	TV 88/90	TV 73/77		
Actuarial method	Project Unit Credit Method			

In accordance with the accounting policy described in Note 2.14, the discount rate used to calculate the actuarial present value of the pensions and health care defined benefits, is determined at the balance sheet date by reference to interest rates of high-quality corporate bonds. Taking into account the financial market conditions as at 31 December 2005, the Bank decided to use a discount rate of 4.75% (2004: 5.25%). The change in the discount rate led to an increase of pension and health care liabilities in the amount of euro 2.6 million (2004: euro 0.7 million).

Additionally, after having analysed the results of a study made of the characteristics of current and former employees, the Bank decided to change the mortality tables used in the calculation of the pension and health care liabilities. The change in the mortality tables led to an increase in pension and health care liabilities in the amount of approximately euro 1.1 million.

The contributions to SAMS are defined by that entity, as at 31 December 2004 represented 6.25% of staff costs. In 2005, this contribution rate changed to 6.50%.

As at 31 December 2005 and 2004, the number of employees covered by the plan is as follows:

	31.12.2005	31.12.2004
Employees	216	172
Pensioners	18	13
Widows and other direct relatives	4	1
TOTAL	**238**	**186**

Securities issued by the Bank which are part of the Pension Fund assets are analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Bonds	100	-
Total	**100**	**-**

As at 31 December 2005 and 2004, the application of IAS 19 led to the following amounts recognised in the balance sheet:

in thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Assets / (liabilities) recognised in the balance sheet						
Liabilities as at 31 December						
Pensioners	5,969	388	6,357	3,015	185	3,200
Employees	15,763	1,025	16,788	10,751	659	11,410
	21,732	**1,413**	**23,145**	**13,766**	**844**	**14,610**
Fair value of plan assets as at 31 December	**18,394**	**-**	**18,394**	**12,999**	**-**	**12,999**
Unfunded liabilities	(3,338)	(1,413)	(4,751)	(767)	(844)	(1,611)
Unrecognised net actuarial losses as at 31 December	7,024	505	7,529	4,062	193	4,255
Asset/(liabilities) recognised in the balance sheet as at 31 December	**3,686**	**(908)**	**2,778**	**3,295**	**(651)**	**2,644**

The liabilities arising from the pension and healthcare benefits, increased in 2005 and 2004 as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Liabilities as at 1 J anuary	**13,766**	**844**	**14,610**	**12,142**	**746**	**12,888**
Effect of ES Dealer legal merger	2,393	150	2,543	-	-	-
Service cost	985	76	1,061	981	63	1,044
Interest cost	834	51	885	669	41	710
Plan participants' contribution	102	-	102	89	-	89
Actuarial (gains)/losses						
- by changes in the mortality table	1,053	95	1,148	-	-	-
- by changes in the discount rate	2,375	214	2,589	726	9	735
- other actuarial (gains)/losses	196	18	214	(602)	-	(602)
Benefits paid by the Fund	(545)	-	(545)	(239)	-	(239)
Benefits paid by the Bank	-	(35)	(35)	-	(15)	(15)
Curtailment losses related to early retirements	573	-	573	-	-	-
Liabilities as at 31 December	**21,732**	**1,413**	**23,145**	**13,766**	**844**	**14,610**

The curtailment losses occurred during 2005, in the amount of euro 573 thousand, were recognised as costs in the previous year (see note 31).

The change in the fair value of the plan assets in 2005 and 2004 is analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Fair value of plan assets as at 1 January	**12,999**	**-**	**12,999**	**11,718**	**-**	**11,718**
Effect of ES Dealer legal merger	2,951	-	2,951	-	-	-
Actual return on plan assets	1,427	-	1,427	768	-	768
Bank contribution	1,460	-	1,460	663	-	663
Plan participants' contribution	102	-	102	89	-	89
Benefits paid by the Fund	(545)	-	(545)	(239)	-	(239)
Fair value of plan assets as at 31 December	**18,394**	**-**	**18,394**	**12,999**	**-**	**12,999**

The change in the unrecognised net actuarial losses in 2005 and 2004 is analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unrecognised net actuarial losses as at 1 January	**4,062**	**193**	**4,255**	**4,267**	**192**	**4,459**
Effect of ES Dealer legal merger	69	(10)	59	-	-	-
Actuarial (gains)/losses						
- by changes in the mortality table	1,053	95	1,148	-	-	-
- by changes in the discount rate	2,375	214	2,589	726	9	735
- other actuarial (gains)/losses	(367)	18	(349)	(728)	-	(728)
Amortisation of the year	(168)	(5)	(173)	(203)	(8)	(211)
Unrecognised net actuarial losses as at 31 December	**7,024**	**505**	**7,529**	**4,062**	**193**	**4,255**
Of which:						
Within the corridor	2,173	141	2,314	2,846	119	2,965
Outside the corridor	4,851	364	5,215	1,216	74	1,290

The change in unfunded liabilities is analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unfunded liabilities as at 1 January	**767**	**844**	**1,611**	**424**	**746**	**1,170**
Effect of (gains)/losses of liabilities	(558)	150	(408)	-	-	-
Actuarial (gains)/losses of liabilities	3,624	327	3,951	124	9	133
Actuarial (gains)/losses of plan assets	(564)	-	(564)	(126)	-	(126)
Charges for the year						
- Service cost	985	76	1,061	981	63	1,044
- Interest cost	834	51	885	669	41	710
- Expected return on plan assets	(863)	-	(863)	(642)	-	(642)
- Curtailment losses related to early retirements	573	-	573	-	-	-
Contributions of the year and pensions paid by the bank	(1,460)	(35)	(1,495)	(663)	(15)	(678)
Unfunded liabilities as at 31 December	**3,338**	**1,413**	**4,751**	**767**	**844**	**1,611**

As at 31 December 2005 there was an insufficiency in the annual contribution, in the amount of euro 2.5 million due to a change in the actuarial assumptions. In order to adjust this insufficiency, the Bank made a reinforcement during the first quarter of 2006, in the amount of euro 3.1 million.

The net periodic benefit cost can be analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Service cost	985	76	1,061	981	63	1,044
Interest cost	834	51	885	669	41	710
Expected return on plan assets	(863)	-	(863)	(642)	-	(642)
Amortisation of the year	168	5	173	203	8	211
Net periodic benefit cost	**1,124**	**132**	**1,256**	**1,211**	**112**	**1,323**

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

in thousands of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
As at 1 January	**3,295**	**(651)**	**2,644**	**3,843**	**(554)**	**3,289**
Net periodic benefit cost	(1,124)	(132)	(1,256)	(1,211)	(112)	(1,323)
Charge-off of provisions	(573)	-	(573)	-	-	-
Contributions of the year and pensions paid	1,460	35	1,495	663	15	678
E. S. Dealer legal merger	628	(160)	468	-	-	-
As at 31 December	**3,686**	**(908)**	**2,778**	**3,295**	**(651)**	**2,644**

The assets / (liabilities) recognised in the balance sheet are included under other assets and other liabilities (see Note 24 and Note 31).

Long-service benefits

As referred in Note 2.14, for employees that achieve certain years of service, the Bank pays long service premiums, calculated based on the effective monthly remuneration earned at the date the premiums are paid. At the date of early retirement or disability, employees have the right to a premium proportional to that they would earn if they remained in service until the next payment date.

At 31 December 2005 and 2004, the Bank's liability and costs incurred related to long-service benefits can be analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Liabilities as at 1 January	**1,229**	**1,019**
Costs of the year (see Note 9)	640	213
Benefits paid	249	3
Liabilities as at 31 December	**1,620**	**1,229**

The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable).

Note_11
General and administrative expenses

This caption is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Rental costs	1,887	1,329
Advertising costs	1,034	1,407
Communication costs	1,338	939
Maintenance and related services	340	367
Travelling and representation costs	2,664	1,936
Water,energy and fuel	180	135
Consumables	116	133
Specialised services		
IT services	1,274	785
Temporary work	235	301
Independent work	782	332
Security	166	121
Information	76	76
Other specialised services	1,808	1,133
Other	2,126	2,278
	14,026	**11,272**

The balance other specialised services includes, among others, costs with data bank and recruitment.

Note_12
Earnings per share

Basic earning per share

Basic earning per share is calculated by dividing the net profit of the Bank by the weighted average number of ordinary shares outstanding during the period.

in thousands of euros

	31.12.2005	31.12.2004
Profit for the year	67,546	29,003
Weighted average number of ordinary shares (thousands)	14,000	14,000
Weighted average number of ordinary shares outstanding (thousands)	14,000	14,000
Basic earnings per share (in euro)	**4.82**	**2.07**

Diluted earning per share

The diluted earning per share is calculated considering the profit of the Bank and the weighted average number of ordinary shares outstanding and is adjusted for the effects of all dilutive potential ordinary shares.

As at 31 de December 2005 and 2004, the Bank had no dilutive potential ordinary share. Therefore, the diluted earning per share is equal to the basic earning per share.

Note_13
Cash and deposits at central banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Cash	9	9
Deposits at central banks		
Bank of Portugal	2,488	4,072
	2,497	**4,081**

The balance Deposits at Central Banks includes mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. As at 31 December 2005 these deposits earned interest at an average rate of 2.07% (31 December 2004: 2.02%).

Note_14
Deposits with banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Deposits with banks in Portugal		
Repayable on demand	2,319	989
	2,319	989
Deposits with banks abroad		
Repayable on demand	2,801	353
	2,801	**353**
	5,120	**1,342**

Note_15
Financial assets at fair value through profit or loss

This balance is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Securities	13,490	16,860
Bonds and other fixed income securities	58,691	106,084
Issued by other entities	6,838	14,007
Shares	79,019	136,951
Other variable income securities	119,732	80,210
Derivates	**198,751**	**217,161**

As at 31 December 2005, the acquisition cost of the financial assets at fair value through profit or loss amounted to euro 78,952 thousand (31 de December 2004: euro 136,851 thousand).

The analysis of the financial assets at fair value through profit or loss by the period to maturity is as follows:

in thousands of euros

	31.12.2005	31.12.2004
Financial assets at fair value through profit or loss		
Up to 3 months	-	318
3 to 12 months	-	27
1 to 5 years	8,341	16,127
More than 5 years	6,147	4,625
Undetermined	64,531	11,853
	79,019	**136,951**

In accordance with the accounting principle described in Note 2.5, financial assets at fair value through profit or loss are those which are acquired to be traded in the short term, regardless of their maturity.

As at 31 December 2005 and 2004, the balance financial assets at fair value through profit or loss is analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed income securities						
Issued by other entities	13,490	-	13,490	16,860	-	16,860
Shares	58,691	-	58,691	106,084	-	106,084
Other variable income securities	5840	998	6,838	7,769	6,238	14007
Book value	**78,021**	**998**	**79,019**	**130,713**	**6,238**	**136,951**

As at 31 December 2005 and 2004, derivative financial instruments can be analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
		Fair Value			Fair Value	
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Exchange rate contracts	**4,126,572**	**1,634**	**1,639**	**2,074,455**	**74**	**145**
Interest rate contracts						
Interest Rate Swaps	7,776,338	55,602	52,866	4,640,217	40,619	30,233
Interest Rate Caps & Floors	1,864,077	6,141	6,150	1,498,719	7,987	7,284
Future Options	6,527	24,440	140,937	37,269	-	-
	9,646,942	**86,183**	**199,953**	**6,176,205**	**48,606**	**37,517**
Equity/index contracts						
Equity,/,Index,Swaps	160,795	10,633	10,682	78,127	-	-
Equity,/,Index,Options	669,772	20,263	79,387	307,265	31,530	92,435
	830,567	**30,896**	**90,069**	**385,392**	**31,530**	**92,435**
Credit default contracts						
Credit,Default,Swaps	261,040	1,019	384	186,759	-	-
	261,040	1,019	384	186,759	-	-
Total	**14,865,121**	**119,732**	**292,045**	**8,822,811**	**80,210**	**130,097**

Note_16
Available-for-sale financial assets

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousands of euros

	Amortised Cost	Fair value reserve		Impairment	Book Value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	2,104	-	-	-	2,104
Issued by other entities	55,239	-	-	(10,370)	44,869
Shares	11,039	-	-	(7,593)	3,446
Other variable income securities	26,840	-	-	-	26,840
Balance as at 31 December 2004	**95,222**	**-**	**-**	**(17,963)**	**77,259**
Bonds and other fixed income securities					
Issued by governement and public entities	2,113	67	-	-	2,180
Issued by other entities	65,868	326	(1)	-	66,193
Shares	3,529	690	-	(112)	4,107
Other variable income securities	26,282	122	(71)	-	26,333
Balance as at 31 December 2005	**97,792**	**1,205**	**(72)**	**(112)**	**98,813**

From 1 January 2005, available-for-sale financial assets are measured at their fair value, in accordance with the accounting policy described in Note 2.5. Until that date, these assets were recognised at acquisition cost net of provisions for unrealised losses, calculated as the difference between the acquisition cost and the market value.

The changes occurred in 2005 and 2004 in impairment losses of available-for-sale financial assets are presented as follows:

in thousands of euros

	31.12.2005	31.12.2004
Balance as at 31 December	17,963	24,358
Impact of adoption IAS 32 and IAS 39	(1,137)	-
Balance as at 1 January	16,826	24,358
Charge for the year	-	2,519
Charge off	(17,339)	(5,621)
Write back for the year	(798)	(2,054)
Exchange differences and other	1,423	(1,239)
Balance at the end of the year	**112**	**17,963**

The analysis of available-for-sale financial assets by the period to maturity is as follows:

in thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	3,021	650
3 to 12 months	-	9,938
1 to 5 years	60,212	27,266
More than 5 years	5,140	9,119
Undetermined	30,440	30,286
	98,813	**77,259**

The main contributions to the fair value reserve, as at 31 December 2005, can be analysed as follows:

in thousands of euros

	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
SAPEC ORD	603	690	-	-	1,293
CRED SUI FIRST BOST 2% DEC07	2,503	200	-	-	2,703
GOTTEX	2,543	97	-	-	2,640
REP.PORTUGUESA,AGO2007 4.875%	2,113	67	-	-	2,180
Fundo ABRIA	1,695	25	-	-	1,720
CAIXA FINANCE APR 2007	13,054	18	-	-	13,072
B.ALVES RIBEIRO CX MAR06 FLOAT	3,010	11	-	-	3,021
CX ECO MONT GERAL EUR3M+20 MAR07	5,000	6	-	-	5,006
ESPIRITO SANTO IBERIA	2,389	-	(71)	-	2,318
P.GOLFE	75	-	-	(75)	-
CENTIMO	37	-	-	(37)	-
	33,022	**1,114**	**(71)**	**(112)**	**33,953**

Note_17
Loans and advances to banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Loans and advances to banks in Portugal		
Inter-bank money market	-	10,001
Other loans and advances	-	367
	-	**10,368**
Loans and advances to banks abroad		
Other loans and advances	66,671	227,374
	66,671	**227,374**
Impairment losses	(2)	(3)
	66,669	**237,739**

The analysis of loans and advances to banks by the period to maturity is as follows:

	in thousands of euros	
	31.12.2005	31.12.2004
Up to 3 months	49,762	199,099
3 to 12 months	16,909	38,643
	66,671	**237,742**

The changes occurred in the provision for impaired loans and advances to banks are presented as follows:

	in thousands of euros	
	31.12.2005	31.12.2004
Balance at the begining of the year	3	2
Charge for the year	(4)	6
Write back for the year	(7)	(5)
Exchange differences and other	2	-
Balance at the end of the year	**2**	**3**

Note_18
Loans and advances to costumers

As at 31 December 2005 and 2004, this balance is analysed as follows:

	in thousands of euros	
	31.12.2005	31.12.2004
Domestic loans		
Corporate		
Commercial lines of credits	42,328	6,058
Loans	453,666	348,295
Overdrafts	1	9
Other loans	19,705	13,502
Retail		
Mortgage loans	1,423	1,899
Consumer and other loans	12	16
	517,135	**369,779**
Foreign loans		
Corporate		
Loans	5,434	11,521
	5,434	**11,521**
Overdue loans and interest		
Up to 90 days	100	43
More than 90 days	10,929	4,843
	11 029	4 886
	533,598	**386,186**
Provision for impaired loans	(10,103)	(4,889)
	523,495	381,297

Additionally, the Bank has, as at 31 December 2005 an amount of euro 8,138 thousand of general credit risks provisions (31 December 2004: euro 9,829 thousand) that according to NCA are accounted as a liability (see Note 28).

The analysis of loans and advances to customers by period to maturity, as at 31 December 2005 and 2004, is as follows:

in thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	219	57,690
3 to 12 months	17,107	22,909
1 to 5 years	18,134	74
More than 5 years	487,109	300,627
Undetermined	11,029	4,886
	533,598	**386,186**

The changes occurred in the provision for impaired loans and advances to customers are presented as follows:

in thousands of euros

	31.12.2005	31.12.2004
Balance at the begining of the year	4,889	5,277
Charge for the year	9,582	2,562
Charge off	(237)	(464)
Write back for the year	(3,583)	(2,357)
Transfers	(810)	(134)
Exchange differences and other	262	5
Balance at the end of the year	**10,103**	**4,889**

Loans and advances to customers by interest rate type is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Fixed interest rate	14,462	14,138
Variable interest rate	519,136	372,048
	533,598	**386,186**

Loans and advances to costumers by type of guarantee is presented as follows:

in thousands of euros

	31.12.2005	31.12.2004
Mortgage	30,042	34,295
Listed securities	173,564	155,489
Other	42,631	66,662
Unsecured	287,361	129,740
	533,598	**386,186**

Note_19
Hedging derivatives

As at 31 December 2005 and 2004, the balance Hedging derivatives is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Hedging derivatives with positive fair value (assets)	1,718	2,048
Hedging derivatives with negative fair value (liabilities)	(2,068)	(1,590)
	(350)	**458**

As at 31 December 2005, the fair value hedge relationships present the following features:

in thousands of euros

Derivative	Hedged item	Hedged risk	Notional	Fair value derivative	Changes in the fair value of the derivative in the year	Hedged item fair value	Changes in the fair value of the hedged item in the year
Interest,Rate,Swaps	Issued Bonds	Interest rate	38,166	(1,298)	(2,178)	758	1,876
Interest,Rate,Swaps	Deposits	Interest rate	96,335	948	403	(723)	(44)
			134,501	**(350)**	**(1,775)**	**35**	**1,832**

The Bank's hedging operations had, as at 31 December 2005, presented an effectiveness above 99.89%. The ineffectiveness component of these operations amounted to euro 184 thousands and was recognized in the income statement.

The analysis of fair value hedge transactions by the period to maturity is as follows:

in thousands of euros

	31.12.2005	
	Notional	Fair value
3 to 12 months	63,000	(28)
1 to 5 years	42,741	(327)
More than 5 years	28,760	5
	134,501	(350)

Note_20
Non-current assets and liabilities held for sale

During December 2005, BES Investimento and Espírito Santo Saúde acquired 90% of the share capital of Hospor – Hospitais Portugueses S.A., a company which provides medical services. This company has two hospitals and three ambulatory centres in Portugal.

This acquisition was carried out through a vehicle 80% owned by BESI and 20% owned by Espírito Santo Saúde.

The current shareholding held by BESI will be sold to Espírito Santo Saúde during 2006.

As at 31 December 2005, the amount of euro 40 thousand related to the acquisition cost and euro 31,680 thousand related to loans to the referred company. In relation to this transaction the Bank did not recognise any gain or loss during the year.

Note_21
Property and equipment

As at 31 December 2005 and 2004 this balance is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Property		
For own use	642	642
Improvements in leasehold property	2,141	1,472
	2,783	**2,114**
Equipment		
Computer equipment	2,961	2,568
Fixtures	1,041	397
Furniture	1,826	1,357
Security equipment	168	135
Office equipment	506	414
Motor vehicles	109	192
Other	31	50
	6,642	**5,113**
Work in progress		
Improvements in leasehold property	208	-
Computer equipment and other	-	40
	208	**40**
	9,633	**7,267**
Accumulated depreciation	**(6,314)**	**(4,581)**
Net balance as at 31 December	**3,319**	**2,686**

Note_22
Intangible assets

As at 31 December 2005 and 2004 this balance is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Acquired to third parties		
Software	5,531	6,023
Other	-	690
	5,531	**6,713**
Work in progress	570	400
	6,101	**7,113**
Accumulated amortisation	(5,177)	(6,377)
	(5177)	(6377)
	924	**736**

The movement in this balance was as follows:

in thousands of euros

	Software	Other	Work in progress	Total
Net balance as at 1 January 2004	**659**	**4**	**17**	**680**
Acquisitions:				
Acquired from third parties	83	-	411	494
Amortisation of the year	(436)	(2)	-	(438)
Transfers	28	-	(28)	-
Net balance as at 31 December 2004	**334**	**2**	**400**	**736**
Acquisitions:				
Acquired from third parties	70	-	272	342
Amortisation of the year	(307)	-	-	(307)
Transfers	102	-	(102)	-
Exchange differences and other (a)	153	-	-	153
Net balance as at 31 December 2005	**352**	**2**	**570**	**924**

(a) This value includes mainly the effect of ES Dealer legal merger.

Note_23
Investments in associates

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

in thousands of euros

	31.12.2005				31.12.2004			
	Nr of shares	Equity	Value (euros)	Acquisition cost	Nr of shares	Equity	Value (euros)	Acquisition cost
KUTHAYA	2	100.00%	2.50	5	2	100.00%	2.50	5
BRB INTERNACIONAL	38,000	19.00%	5.00	7,628	38,000	19.00%	5.00	7,628
PRO SPORT	1,900	19.00%	6.02	189	1,900	19.00%	6.02	189
APOLO FILMS	16,508	19.00%	6.01	582	16,508	19.00%	6.01	582
COMINVEST	375,000	25.00%	5.00	2,089	375,000	25.00%	5.00	2,089
ESSI COMUNICACÕES SGPS S.A.	10,000	100.00%	5.00	50	10,000	100.00%	5.00	50
ESSI INVESTIMENTOS, SGPS S.A.	210,000	100.00%	5.00	1,050	210,000	100.00%	5.00	1,050
ESPIRITO SANTO DEALER (a)	-	-	-	-	700,000	100.00%	5.00	6,667
ESPIRITO SANTO INVESTMENT PLC	164,994	100.00%	5.00	825	164,994	100.00%	5.00	825
ESPIRITO SANTO INVESTMENT-SAU, SV (b)	46,422	100.00%	602.00	35,010	-	-	-	-
					47,428			**19,085**
Impairment losses					(10,037)			(10,064)
					37,391			9,021

(a) As at 3 January 2005 Espírito Santo Dealer was merged into Banco Espírito Santo de Investimento S.A.
(b) Accquired in August 2005

The changes occurred in the provision for impaired investments in associates are presented as follows:

in thousands of euros

	31.12.2005	31.12.2004
Balance at the begining of the year	10,064	8,950
Charge for the year	-	(99)
Exchange differences and other	(27)	1,213
Balance at the end of the year	**10,037**	**10,064**

Note_24
Other assets

As at 31 December 2005 and 2004, the balance Other assets is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Debtors		
Deposits placed under options contracts	142,997	3,708
Deposits placed under futures contracts	73,424	43,999
Loans to companies in which the Bank has a minority interest	144,488	110,912
Public sector	23	64
Sundry debtors	6,699	5,914
	367,631	**164,597**
Impairment losses on debtors	(3,775)	(3,863)
	363,856	**160,734**
Other assets		
Gold, other precious metals, numismatics and other liquid assets	506	7
Other assets	759	635
	1,265	642
Accrued income	**-**	**81**
Prepayments and deferred costs	**1,621**	**1,324**
Other sundry assets		
Foreign exchange transactions pending settlement	212	-
Stock exchange transactions pending settlement	144,935	-
Other transactions pending settlement	4,646	14,998
	149,793	**14,998**
Assets recognised on pensions (see Note 10)	**3,686**	**3,295**
	520,221	**181,074**

Stock exchange transactions pending settlement represent the net balance of the acquisition and disposal orders issued by the Bank pending settlement.

Changes in impairment losses are presented as follows:

in thousands of euros

	31.12.2005	31.12.2004
Balance at the begining of the year	3,863	3,802
Charge-off	(49)	-
Write back for the year	(39)	-
Exchange differences and other		
Balance at the end of the year	**3,775**	**3,863**

Note_25
Deposits from banks

The balance deposits from banks is analysed as follows:

		in thousands of euros
	31.12.2005	31.12.2004
Domestic		
Inter-bank money market	143,516	413,721
Deposits	24,988	28,165
Other funds	37,063	92,911
	205,567	**534,797**
International		
Deposits	45	35
Other funds	288,846	117,411
	288,891	**117,446**
	494,458	**652,243**

The analysis of deposits from banks by the period to maturity is as follows:

		in thousands of euros
	31.12.2005	31.12.2004
Up to 3 months	267,172	423,298
3 to 12 months	227,286	200,332
1 to 5 years	-	28,000
More than 5 years	-	613
	494,458	**652,243**

Note_26
Due to costumers

The balance due to customers is analysed as follows:

		in thousands of euros
	31.12.2005	31.12.2004
Repayable on demand		
Demand deposits	35,554	45,645
Time deposits		
Time deposits	74,444	27,423
Other funds	27,250	205
	137,248	**73,273**

The analysis of the amounts due to customers by the period to maturity is as follows:

	in thousands of euros	
	31.12.2005	31.12.2004
Repayable on demand	35,554	45,645
With agreed maturity		
Up to 3 months	14,669	211
3 to 12 months	62,032	27,417
1 to 5 years	24,993	-
	101,694	**27,628**
	137,248	**73,273**

Note_27
Debt securities issued

Outstanding debt securities is analysed as follows:

	in thousands of euros	
	31.12.2005	31.12.2004
Debt securities issued		
Cash bonds	24,509	9,299
	24,509	**9,299**

During the year ended 31 December 2005, BESI issued debt securities amounting to euro 16,316 thousand (31 December 2004: euro 9,150 thousand).

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

	in thousands of euros	
	31.12.2005	31.12.2004
1 to 5 years	15,807	9,299
More than 5 years	8,702	-
	24,509	**9,299**

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

in thousands of euros

				31.12.2005			
Issuer	Designation		Currency	Issue Date	Book Value	Maturity	Global yield/interest rate
BESI	BESI Rendimento 2008		EUR	2004	3,314	2008	fixed - 2.75%
BESI	BESI Rendimento Plus 2008		EUR	2004	2,597	2008	fixed - 4.85%
BESI	BESI CAIXA BEST ACCOES EUROPA,4%	a)	EUR	2005	2,522	2010	fixed - 4.00%
BESI	BESI CX,RANGE ACCR AND FX NOV11		EUR	2005	5,598	2011	Range accural
BESI	BESI MULTIESTRATEGIA MAR2010	a)	EUR	2005	2,679	2010	Reference basket b)
BESI	BESI OBRIG BULL&BEAR JUN10	a)	EUR	2005	1,452	2010	DJ Eurostoxx 50 Index
BESI	BESI OBRIG RENDIMENT 20% MAY2015		EUR	2005	3,105	2015	fixed - 5.00%
BESI	BESI OBRIG RENDIMENT PLUS TX VAR,OUT07		EUR	2004	2,009	2007	fixed - 4.15%
BESI	BESI OBRIG RENDIMENT PLUS 2 TX VAR AGO08		EUR	2004	1,233	2008	fixed - ,4.85%

a) debt issues with embedded derivatives attached see Note 2.3
b) Basket composed by the indexes: EUGATR, Eurostoxx 50, Short EUR/Long USD, Goldman Sachs Commodity Index Excess Return

Note_28
Provisions

As at 31 December 2005 and 2004, the balance of provisions presents the following movements:

in thousands of euros

	General credit risks	Other provisions	Total
Balance as at 31 December 2003	**4,377**	**2,462**	**6,839**
Charge for the year	5,324	5,549	10,873
Write back for the year	-	(5,063)	(5,063)
Transfers	134	-	134
Exchange differences and other	(6)	-	(6)
Balance as at 31 December 2004	**9,829**	**2,948**	**12,777**
Charge for the year	2,334	1,500	3,834
Write back for the year	(4,838)	(948)	(5,786)
Transfers	810	-	810
Exchange differences and other	3	-	3
Balance as at 31 December 2005	**8,138**	**3,500**	**11,638**

Other provisions are intended to cover certain contingencies related to the Bank's activities.

Note_29
Income taxes

The Bank is subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes.

BESI determined its income tax liability for 2005 and 2004 on the basis of a nominal rate of 27.5%, in accordance with the Law No. 107-B/2003 from 31 December.

The deferred taxes for 2005 and 2004 were determined based on the tax rate of 27.5%, as this is the approved tax rate at the balance sheet date.

The Portuguese Tax Authorities are entitled to review the annual tax returns of the Bank related to 2004 and the following years 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 is confident that there will be no further material tax assessments within the context of the financial statements.

The deferred tax assets and liabilities recognised in the balance sheet in 2005 and 2004 can be analysed as follows:

in thousands of euros

	Assets		Liabilities		Net	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Derivative financial instruments	15,245	-	-	(884)	15,245	(884)
Available-for-sale financial assets	-	-	(312)		(312)	-
Loans and advances to customers	2,777	2,185	-	-	2,777	2,185
Investments in subsidiaries and associates	-	874	(874)	-	(874)	874
Provisions	550	968	-	-	550	968
Pensions	63	30	-	-	63	30
Long-service benefits	386	338	-	-	386	338
Other	-	-	(2,000)	(2,000)	(2,000)	(2,000)
Tax credits resulting from double tax treaties	1,205	-	-	-	1,205	-
Deferred tax asset / (liability)	**20,226**	**4,395**	**(3,186)**	**(2,884)**	**17,040**	**1,511**
Assets/liabilities compensation for deferred taxes	(3,186)	(2,884)	3,186	2,884	-	-
Deferred tax asset / (liability), net	**17,040**	**1,511**	**-**	**-**	**17,040**	**1,511**

The deferred tax movement in 2005 and 2004 can be analysed as follows:

in thousands of euros

	31.12.2005		31.12.2004	
	Recognised in profit	Recognised in reserves	Recognised in profit	Recognised in reserves
Derivative financial instruments	(16,304)	-	(659)	-
Available-for-sale financial assets	167	-	-	-
Loans and advances to customers	(1,224)	-	(1,500)	-
Investments in subsidiaries and associates	1,748	-	-	-
Provisions	418	-	537	-
Pensions	-	-	(138)	-
Long-service benefits	-	-	(58)	-
Other	(1,205)	-	1,996	-
Effect of ES Dealer legal merger (a)	-	(81)	-	-
Transition adjustment as at 1 January 2005	-	952	-	-
	(16,400)	**871**	**178**	**-**

(a) – The effect of ES DEaler legal merger is included in the respective merger reserve

The reconciliation of the income tax rate is shown in the following table:

in thousands of euros

	31.12.2005		31.12.2004	
	%	Amount	%	Amount
Profit before taxes		**74,522**		**36,457**
Statutory tax rate	27.5%		27.5%	
Income tax calculated based on the statutory tax rate		20,494		10,026
Tax-exempt dividends		(14,076)		(1,220)
Non deductible costs		179		119
Other		379		(1,471)
		6,976		**7,454**

Note_30
Subordinated debt

The balance subordinated debt is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Cash bonds	99,653	57,028
	99,653	**57,028**

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

in thousands of euros

		31.12.2005				
Issuer	Designation	Issue Date	Amount issued	Carrying amount	Interest rate	Maturity
BESI	BANCO ESSI SUB. 96/06 (EURO)	1996	29,928	29,283	2.6220%	2006
BESI	BESI SUBORDINADAS OCT2033 5.5%	2003	10,000	10,196	5.5000%	2033
BESI	BESI CAIXA SUB DEC15	2005	60,000	60,000	6.6000%	2009
Sub-total				**99,479**		
Juro,Corrido				174		
				99,653		

During the year ended 31 December 2005, BESI issued subordinated debt securities in the amount of euro 60 million and reimbursed euro 19.9 million. During 2004, the Bank did not issued or reimbursed subordinated debt securities.

Note_31
Other liabilities

As at 31 December 2005 and 2004, the balance other liabilities is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Creditors		
Public sector	3,199	1,618
Sundry creditors		
Creditors from transactions with securities	41,756	-
Suppliers	3,570	1,376
Health care benefits (see Note 10)	908	651
Other sundry creditors	41,154	4,767
	90,587	**8,412**
Accrued expenses		
Long-service benefits (see Note 10)	1,620	1,229
Other accrued expenses	1,677	1,870
	3,297	**3,099**
Deferred income	**404**	**639**
Other sundry liabilities		
Stock exchange transactions pending settlement	150,594	1,607
Foreign exchange transactions pending settlement	75	12,681
Other transactions pending settlement	27,667	16,148
	178,336	**30,436**
	272,624	**42,586**

The balance other accrued expenses includes, as at 31 December 2004, the amount of euro 573 thousand related to early retirements paid during 2005 (see Note 10).

As at 31 December 2005 and 2004, the balance stock exchange transactions pending settlement represents the net balance of the acquisition and disposal orders issued by the Bank pending settlement.

Note_32
Share capital and share premium

Ordinary shares

As at 31 December 2005, the Bank's share capital was represented by 14 million ordinary shares with a face value of 5 euros each, which were subscribed and fully paid by Banco Espírito Santo S.A.

During 2005 the Bank did not issue any ordinary shares representative of its share capital

Share premium

As at 31 December 2005, the share premium in the amount of 8,796 thousands of euros relates to the capital increase occurred during July 1998.

Note_33
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, December 31) requires that 10% of the profit for the year must 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 unrealised gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years. The amount of this reserve is shown net of deferred taxes.

During 2005 and 2004, the changes in these captions were as follows:

in thousands of euros

	Fair value reserves			Other reserves and retained earnings		
	Available-for-sales financia assets	Deferred tax reserves	Total Fair value reserve	Legal Reserve	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 1 January 2004 NCA (excluding IAS 32 and IAS 39)	**-**	**-**	**-**	**8,333**	**11,587**	**19,920**
Dividends from ordinary shares	-	-	-	-	(1,479)	(1,479)
Regulation nr. 4/2002	-	-	-	-	(1,251)	(1,251)
Transfer to reserves	-	-	-	2,281	3,210	5,491
Balance as at 31 December 2004 NCA (excluding IAS 32 and IAS 39)	-	-	-	10,614	12,067	22,681
Effect of adoption of IAS 32 and IAS 39	548	(145)	403	-	(2,713)	(2,713)
Balance as at 1 January 2005 NCA	**548**	**(145)**	**403**	**10,614**	**9,354**	**19,968**
Changes in fair value	585	-	585	-	-	-
Dividends from ordinary shares	-	-	-	-	(20,000)	(20,000)
Effect of the ES Dealer merger	-	-	-	-	357	357
Transfer to reserves	-	-	-	2,509	1,702	4,211
Balance as at 31 December 2005	**1,133**	**(145)**	**988**	**13,123**	**(8,587)**	**4,536**

As at 31 December 2005, the fair value reserve can be analysed as follows:

in thousands of euros

	31.12.2005
Amortised cost of available-for-sale financial assets	97,792
Accumulated impairment recognised	(112)
Amortised cost of available-for-sale financial assets, net of impairment	97,680
Fair value of available-for-sale financial assets	98,813
Net unrealised gains recognised in the fair value reserve	1,133
Deferred taxes	(145)
Balance as at 31 December 2005	**988**

The movement in the fair value reserve, net of deferred taxes, in the year ended 31 December 2005 is analysed as follows:

in thousands of euros

	31.12.2005
1 January 2005	403
Changes in fair value	515
Disposals during the year	70
Balance as at 31 December 2005	**988**

Note_34
Contingent liabilities and commitments

As at 31 December 2005 and 2004, this caption can be analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Contingent liabilities		
Guarantees and standby letters of credit	116,496	183,731
Assets pledged as collateral	28,455	29,856
	144,951	**213,587**
Commitments		
Irrevocable commitments	104,225	107,311
	104,225	**107,311**

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

Irrevocable commitments represent contractual agreements to extend credit to Bank's customers (eg. unused credit lines). These agreements are generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the client and its business, like any other commercial operation. When necessary, the Bank require that these operations are collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not represent necessarily future out-flows.

As at 31 December 2005, the caption assets pledged as collateral include:

Securities pledged as collateral to the Bank of Portugal for the use of the money transfer system (Sistema de Pagamento de Grandes Transacções) in the amount of euro 26,385 thousand (31 December 2004: euro 29,856 thousand);

Securities pledged as collateral to the Portuguese Securities Market Commission (CMVM) in the ambit of the Investors Indmnity System (Sistema de Indemnização aos Investidores) in the amount of euro 2,000 thousand (31 December 2004: euro 2,000 thousand);

Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 70 thousand (31 de December 2004: euro 70 thousand);

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

in thousands of euros

	31.12.2005	31.12.2004
Securities and other items held for safekeeping on behalf of customers	2,166,708	1,422,812
	2,166,708	**1,422,812**

Securities under custody and included in the balance securities and other items held for safekeeping on behalf of customers are mainly deposited in the Group's company specialised in securities custody.

Note_35
Related parties transactions

As at 31 December 2005 and 2004, the balances and transactions with related parties are presented as follows:

in thousands of euros

	31.12.2005					31.12.2004				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Subsidiary companies										
ESIP	66,670	178,967	6,068	182,863	239,090	227,374	25,283	-	28,612	25,819
ESSI,INV.SGPS	-	13,104	-	-	-	-	1,070	-	-	-
ES,CAPITAL	-	6,314	-	-	-	-	185	-	-	-
ESSI,SGPS	-	3,198	-	605,970	200	-	23,167	-	-	24
ESSI,COMUNICAÇÕES	-	317	-	-	-	-	330	-	-	-
KUTAYA	-	-	-	-	-	-	1	-	-	-
ES,DEALER	-	-	-	-	-	-	30,630	-	6	1
	66,670	**201,900**	**6,068**	**788,833**	**239,290**	**227,374**	**80,666**	**-**	**28,618**	**25,844**
Associated companies										
COMINVEST	-	2,521	67	-	-	-	1,537	68	-	-
	-	**2,521**	**67**	**-**	**-**	**-**	**1,537**	**68**	**-**	**-**

Note_36
Risk management

A qualitative outlook of the risk management at the Bank is presented below.

Risk control and risk management provides an active support to management, being one of the strategic mainstays supporting BESI's balanced and sustained development.

BESI's risk management has the following objectives:

- to identify, quantify and monitor the different types of risk, progressively applying uniform and consistent principles and methodologies;
- to help fine-tuning tools to support the structuring of transactions and develop internal techniques of performance assessment and core capital optimisation;
- to assume a proactive attitude in the management of events of significant delay or definitive non performance of contractual obligations.

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 management of risk 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.

The Bank's risk profile is periodically monitored, especially in what concerns the evolution of credit exposure and credit lines. Are equally subject to daily analysis the observance of approval credit limits and the correct functioning of the mechanisms associated to credit approval.

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 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. BESI's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

To improve on VaR assessment, other initiatives have been developed, namely back testing, which consists in comparing the losses foreseen by VaR with actual losses. These exercises permit the fine-tunning of the model and improving its predictive capabilities. As a complement to the VaR model, stress testing was also developed, which permits the assessment of the impact of higher potential losses than those considered using VaR valuation.

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2005 and 2004, is analysed as follows:

in thousands of euros

	31.12.2005						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreign currencies	Total
Assets							
Cash and deposits at central banks	2,492	-	5	-	-	-	2,497
Deposits with banks	2,316	21	2,750	9	23	1	5,120
Financial assets at fair value through profit or loss	173,600	12,427	9,740	2,984	-	-	198,751
Available-for-sale financial assets	94,452	4,361	-	-	-	-	98,813
Loans and advances to banks	-	16,907	49,762	-	-	-	66,669
Loans and advances to customers	523,495	-	-	-	-	-	523,495
Hedging derivatives	1,630	88	-	-	-	-	1,718
Non-current assets held for sale	31,720	-	-	-	-	-	31,720
Property and equipment	3,319	-	-	-	-	-	3,319
Intangible assets	924	-	-	-	-	-	924
Investments in associates	37,391	-	-	-	-	-	37,391
Current income tax assets	280	-	3,242	-	-	-	3,522
Deferred income tax assets	17,040	-	-	-	-	-	17,040
Other assets	468,178	36,801	14,890	-	10	342	520,221
Total assets	**1,356,837**	**70,605**	**80,389**	**2,993**	**33**	**343**	**1,511,200**
Liabilities							
Financial liabilities at fair value through profit or loss	287,290	2,514	2,241	-	-	-	292,045
Deposits from banks	347,518	71,162	72,632	3,024	-	122	494,458
Due to customers	130,251	6997	-	-	-	-	137,248
Debt securities issued	24,509	-	-	-	-	-	24,509
Hedging derivatives	1,901	167	-	-	-	-	2,068
Provisions	11,638	-	-	-	-	-	11,638
Current income tax liabilities	25,091	-	-	-	-	-	25,091
Subordinated debt	99,653	-	-	-	-	-	99,653
Other liabilities	268,110	(1,203)	4,872	-	481	364	272,624
Total liabilities	**1,195,961**	**79,637**	**79,745**	**3.024**	**481**	**486**	**1,359,334**
Equity	**151,866**	**-**	**-**	**-**	**-**	**-**	**151,866**
Net exposure		9,032	(644)	31	448	143	9,010
Operational exposure	**-**	**9,032**	**(644)**	**31**	**448**	**143**	**9,010**

in thousands of euros

	31.12.2005						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreign currencies	Total
Assets							
Cash and deposits at central banks	4,079	-	2	-	-	-	4,081
Deposits with banks	1,097	21	126	4	10	84	1,342
Financial assets at fair value through profit or loss	177,007	24,884	5,525	9,745	-	-	217,161
Available-for-sale financial assets	70,199	7,060	-	-	-	-	77,259
Loans and advances to banks	199,358	25,470	12,911	-	-	-	237,739
Loans and advances to customers	380,696	601	-	-	-	-	381,297
Hedging derivatives	2,042	6	-	-	-	-	2,048
Property and equipment	2,686	-	-	-	-	-	2,686
Intangible assets	736	-	-	-	-	-	736
Investments in associates	9,021	-	-	-	-	-	9,021
Current income tax assets	91	-	1,976	-	-	-	2,067
Deferred income tax assets	1,511	-	-	-	-	-	1,511
Other assets	173,833	4,217	2,622	-	402	-	181,074
Total assets	**1,022,356**	**62,259**	**23,162**	**9,749**	**412**	**84**	**1,118,022**
Liabilities							
Financial liabilities at fair value through profit or loss	129,184	913	-	-	-	-	130,097
Deposits from banks	559,274	63,316	20,165	9,488	-	-	652,243
Due to customers	72,055	1,204	10	-	-	4	73,273
Debt securities issued	9,299	-	-	-	-	-	9,299
Hedging derivatives	1,585	5	-	-	-	-	1,590
Provisions	12,777	-	-	-	-	-	12,777
Current income tax liabilities	8,649	-	-	-	-	-	8,649
Subordinated debt	57,028	-	-	-	-	-	57,028
Other liabilities	38,353	2,252	1,778	14	189	-	42,586
Total liabilities	**888204**	**67,690**	**21,953**	**9,502**	**189**	**4**	**987,542**
Equity	**130,480**						**130,480**
Net exposure	**5,431**	**(1,209)**	**(247)**	**(223)**	**(80)**	**3,672**	
Operational exposure	**-**	**5,431**	**(1,209)**	**(247)**	**(223)**	**(80)**	**3,672**

Liquidity risk

Liquidity risk derives from the potential incapacity to fund assets while satisfying commitments on due dates and from potential difficulties in liquidating positions in portfolio without incurring excessive losses.

Liquidity management is centralised at the Treasury Department. The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. The overall exposure to liquidity risk is assessed through reports that by identifying negative mismatches allow for their hedging on a permanent and dynamic basis.

Liquidity risk is analysed under a two-fold perspective, i.e., it considers both the internal perspective and the regulatory perspective, which is calculated in accordance with Bank of Portugal rules.

Operational risk

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

To manage operational risk, is currently being developed and implemented a system that standardises, systematises and regulates the frequency of actions with an objective of identification, monitoring, controlling and mitigation of risk.

Risk concentration

The analysis of loans and advances to customers and other financial assets by sector of activity, as at 31 December 2005 and 2004, can be analysed as follows:

in thousands of euros

	31.12.2005				
	Loans and advances to customers		Financial assets at fair value through profit or loss	Available-for-sale financial assets	
	Gross amount	Impairment losses	Gross amount	Gross amount	Impairment losses
Agriculture	5,493	(2,890)	2,346	-	-
Mining	-	-	4	-	-
Food, beverage and tobacco	-	-	1,847	27,321	-
Textiles	-	-	-	-	-
Shoes	-	-	-	-	-
Wood and cork	-	-	-	-	-
Printing and publishing	15,410	(285)	1,618	-	-
Refining and oil	-	-	133	-	-
Chemicals and rubber	-	-	41	-	-
Non-metalic minerals	9	(2)	222	1,389	-
Metalic products	15	(4)	-	-	-
Production of machinery, equipment and electric devices	101,436	(143)	115	-	-
Production of transport material	-	-	3,609	-	-
Other transforming industries	-	-	1,021	1,302	-
Electricity, gas and water	-	-	9,743	-	
Construction	20,621	(290)	1,100	-	-
Wholesale and retail	1,527	(942)	-	3,010	-
Tourism	13,432	(398)	-	-	-
Transports and communications	30,696	(123)	21,528	-	-
Financial activities	3,606	(731)	137,892	60,572	(37)
Real estate activities	17,412	(6)	485	-	-
Services provided to companies	-	-	433	896	-
Public services	123	-	-	2,180	-
Non-profit organisations	322,563	(4,282)	8,010	50	-
Mortgage loans	1,243	(7)	-	-	-
Consumer loans	12	-	-	-	-
Other	-	-	8,604	2,205	(75)
TOTAL	**533,598**	**(10,103)**	**198,751**	**98,925**	**(112)**

in thousands of euros

	31.12.2004				
	Loans and advances to customers		Financial assets at fair value through profit or loss	Available-for-sale financial assets	
	Gross amount	Impairment losses	Gross amount	Gross amount	Impairment losses
Agriculture	6,384	(1)	-	-	-
Mining	-	-	19	-	-
Food, beverage and tobacco	-	-	13,692	-	-
Textiles	-	-	-	-	-
Shoes	-	-	-	-	-
Madeira,e,Cortiça	-	-	-	-	-
Wood and cork	19,279	(932)	958	-	-
Refining and oil	-	-	1,786	-	-
Chemicals and rubber	-	-	-	651	-
Non-metalic minerals	-	-	3,538	1,390	-
Indústrias,Metalurgicas,de,Base,e,p.,metálicos	-	-	-	-	-
Production of machinery, equipment and electric devices	24	(6)	242	-	-
Production of transport material	-	-	7,301	-	-
Other transforming industries	5,101	(51)	10,379	-	-
Electricity, gas and water	32,091	(7)	19,411	-	-
Construction	20,454	(396)	701	-	-
Wholesale and retail	10,656	(895)	-	3,006	-
Tourism	100,020	(406)	-	-	-
Transports and communications	26,084	(67)	35,574	-	-
Financial activities	5,977	(121)	106,826	85,824	(17,963)
Real estate activities	8,385	(13)	434	-	-
Services provided to companies	-	-	916	-	-
Public services	758	-	348	2,104	-
Non-profit organisations	149,058	(1,984)	14,544	50	-
Mortgage loans	1,899	(10)	-	-	-
Consumer loans	16	-	-	-	-
Other	-	-	492	2,197	-
TOTAL	**386,186**	**(4,889)**	**217,161**	**95,222**	**(17,963)**

Fair value of financial assets and liabilities accounted for at amortised cost

The fair value of financial assets and liabilities accounted at amortised cost is analysed as follows:

in thousands of euros

	2005	
	Carring Value	Fair value
Cash and deposits at central banks	2,497	2,497
Deposits with Banks	5,120	5,120
Loans and advances to banks	66,669	66,669
Loans and advances to customer	523,495	523,310
Total financial assets	**597,781**	**597,596**
Deposits from banks	494,458	494,458
Due to custumers	137,248	137,248
Debt securities issued	24,509	25,069
Subordinated debt	99,653	100,199
Total financial liabilities	**755,868**	**756,974**

The major methods and assumptions used in estimating the fair values of financial assets and liabilities reflected in the table above 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.

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. 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, there are no quantifiable differences in its fair value.

Debt securities issued and Subordinated debt

For the instruments where the Bank adopts the hedge accounting, its fair value is already reflected in the financial statements. For the remaining instruments, the fair value is based on market prices, when available. When not available, the Bank estimates its fair value by discounting the expected future cash-flows.

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Note_37
Transition adjustments to NCA

As referred to in Note 2.1, these are the first financial statements prepared by the Bank in accordance with the Adjusted Accounting Standards (NCA).

The accounting policies described in Note 2 were used in the preparation of the financial statements as at and for the year ended 31 December 2005, the comparative financial information for the year ended 31 December 2004, as well in the preparation of the opening balance sheet in accordance with the NCA as at 1 January 2004 (transition date).

In the preparation of the opening balance sheet in accordance with NCA and of the comparative financial information for the year ended 31 December 2004, the Bank has restated amounts previously reported in accordance with the general accepted accounting principles for the banking sector, as established by the Bank of Portugal

An explanation of the major adjustments made under the adoption of the NCA to equity as at 1 January 2004, 31 December 2004 and 1 January 2005 and to the profit for the year ended 31 December 2004, is presented below.

Reconciliation of equity

in thousands of euros

		01.01.2004	31.12.2004
Equity (Bank of Portugal rules)		**123,180**	**141,668**
NCA adjustments (excluding IAS 32 and IAS 39)			
Bonus to employees	a)	(4,385)	(6,955)
Pensions and health care benefits	b)	395	(107)
Long service benefits	b)	(1,019)	(1,229)
Fund for general banking risks	c)	1,948	1,948
Impairment from investments in subsidiaries	d)	(6,356)	(6,356)
Deferred taxes	e)	1,689	1,511
Equity NCA adjusted (excluding IAS 32 and IAS 39))		**115,452,**	**130,480**

in thousands of euros

		01.01.2005
Equity NCA adjusted (excluding IAS 32 and IAS 39)		**130,480**
IAS 32 and IAS 39 adjustments		
Derivative financial instruments and hedge accounting	f)	633
Available-for-sale financial assets	g)	548
Amortised cost		(2,539)
Deferred taxes	e)	(952)
Equity NCA adjusted (including IAS 32 and 39)		**128,170**

Reconciliation of profit

		in thousands of euros
		31.12.2004
Profit for the year (Bank of Portugal rules)		36,848
NCA adjustments:		
NCA adjustments:	a)	(6,955)
Pensions and health care benefits	b)	(502)
Long service benefits	b)	(210)
Deferred taxes	e)	(178)
Profit for the year (NCA comparable)		**29,003**

Explanation of the key transition adjustments made as at 1 January 2004

a) Bonus to employees

In accordance with the previous accounting policies of the Bank, bonuses were accounted for as a deduction from equity in the year they were paid, as they were considered to be a transfer of the rights to the dividends from the shareholders to the employees. Under NCA, these bonuses are charged to the income statement in the year to which they relate.

The impact with the NCA adoption led to a decrease in equity in the amount of euro 6,955 thousand as at 31 December 2004 (1 January 2004: euro 4,385 thousand) and a decrease in the profit of the year ended 31 December 2004 in the amount of euro 6,955 thousand.

b) Pensions and health care benefits

Pensions

In accordance with the accounting policy described in Note 2.14, under IFRS 1, the Bank decided to apply retrospectively IAS 19 at transition date. Therefore it has recalculated retrospectively actuarial gains and losses which will be deferred using the corridor method.

Since the previous accounting policies of the Bank, established by the Bank of Portugal under regulation no. 12/2001, already allowed the deferral of actuarial gains and losses in accordance with the corridor method, the adjustments made at transition date reflect mainly the impact of the recognition of (i) the early retirement costs that were previously deferred in the balance sheet, (ii) health care benefits previously accounted for on a cash basis.

In accordance with Bank of Portugal rules, early retirements costs (retirements by disability before 65 years of age) were amortised over a 10 year period. Under NCA, these costs are fully recognised in the year when the retirements occur.

Additionally, with the adoption of IAS 19, the liabilities with health care benefits attributed to employees upon retirement are recognised based on actuarial valuations made at balance sheet date.

Long-service benefits

In accordance with the collective labour agreement for the banking sector in Portugal, the Bank has assumed the commitment to pay the current employees that achieve 15, 25 or 30 years of service within the Bank, a long-service premium corresponding to 1, 2 or 3 month of their effective monthly remuneration. It has been the practice in the Portuguese market to account for such benefits on a cash basis. With the adoption of IAS 19, the Bank has accounted for the present value of this liability following an actuarial valuation.

As at 31 December 2004, the impact with the adoption of NCA led to a decrease in equity in the amount of euro 1,229 thousand (1 January 2004: euro 1,019 thousand) and a decrease in the profit for the year ended 31 December 2004 in the amount of euro 210 thousand.

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c) Fund for general banking risks

According to the previous accounting policies adopted, the Bank booked a fund for general banking risks which aimed to cover non-specific unidentified banking risks inherent to the Bank's activity, based on a prudent criteria established by the Board of Directors.

As at 1 January 2004, under NCA, this fund was reversed. The impact in equity as at 31 December 2004 amounted to euro 1,948 thousand (1 January 2004: euro 1,948 thousand).

d) Impairment on investments in subsidiaries

According to PABS, investments in subsidiaries were recognised in the Balance sheet at cost. Following the adoption of IAS 36, the Bank recognised at transition date an impairment loss of euro 6,356 thousand.

e) Deferred taxes

According to the previous accounting policies of the Bank, deferred tax assets were not recognised. Following the adoption of NCA, the Bank recognises deferred tax assets (in accordance with IAS 12), when it is probable that future tax profits will be available to absorb deductible temporary differences, including tax losses.

The application of IAS 12 implied the recognition by the Bank of the total deferred tax asset calculated on the differences between tax and NCA balance sheet, resulting in the recognition of a deferred tax asset as at 31 December 2004 in the amount of euro 1,511 thousand (1 January 2004: euro 1,689 thousand) and, as at 1 January 2005, a deferred tax liability in the amount of euro 952 thousand.

Explanation of the major transition adjustments related to the adoption of IAS 32 and IAS 39 as at 1 January 2005

f) Derivative financial instruments and hedge accounting

Under IAS 39, all derivative instruments are recognised in the balance sheet at fair value, including hedging derivatives. In accordance with the accounting policies previously adopted by the Bank, hedging derivatives were recognised at notional amount as an off balance sheet item, the interest being accrued in the balance sheet.

Additionally, IAS 39 defines more strict criteria to elect derivative financial instruments as hedging instruments, which implied a reclassification to the trading portfolio of contracts previously classified as hedging instruments.

The adoption of IAS 39 as at 1 January 2005, led to an increase in equity in the amount of euro 633 thousand. This amount includes (i) the amount of euro 2,427 thousand related to the impact of the reclassification of hedging derivatives to the trading portfolio, (ii) a decrease of euro 624 thousand relating to the recognition of embedded derivatives and (iii) a decrease of euro 1,170 thousand related to the impact of hedging operations.

g) Available-for-sale financial assets

Under NCA, the available-for-sale financial assets are recognised at fair value, with the unrealised gains and losses recognised in the fair value reserve, except when an impairment loss exists, in which case it is charged against income. Impairment losses on equity securities cannot be reversed through income, as opposed to the procedure followed for debt securities.

In accordance with the previous accounting policies adopted by the Bank, the available-for-sale financial assets were recognised at the lower of cost or market value. The unrealised losses were fully provided for against the income statement and unrealised gains were not recognised. Increases in the market value of securities previously provided for, such as debt or equity securities, were recognised in income as a write-back of provisions.

Equity holdings that were not consolidated or accounted for under the equity method were recorded at acquisition cost and unrealised losses, determined at balance sheet date, based on the average market price of the last six month, were provided for over a period of five to ten years, as set forth in the Regulation no. 4/2002 of the Bank of Portugal. Unrealised gains were not recognised.

With the adoption of IAS 39, as at 1 January 2005, the net effect of the recognition of unrealised gains and losses led to an increase in equity in the amount of euro 548 thousand.

Note_38
Recently issued pronouncements

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 below.

The Bank is evaluating the impact of adopting these recently issued pronouncements and has not yet completed the analysis.

IFRIC 8 – Scope of IFRS 2

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 12 January 2006 an Interpretation—IFRIC 8 Scope of IFRS 2, which is effective for annual periods beginning on or after 1 May 2006.

The Interpretation clarifies that the accounting standard IFRS 2 Share-based Payment applies to arrangements where an entity makes share based payments for apparently nil or inadequate consideration.

IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies.

The Amendment has not yet been endorsed by the European Commission (EC).

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 16 December 2004 an Interpretation—IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, which is effective for annual periods beginning on or after 1 January 2006.

IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning plant (such as nuclear plant) or equipment (such as cars) or in undertaking environmental restoration or rehabilitation (such as rectifying pollution of water or restoring mined land).

IFRIC 4 Determining whether an Arrangement contains a Lease.

The International Financial Reporting Interpretations Committee (IFRIC) has released on 2 December 2004 an Interpretation— IFRIC 4 Determining whether an Arrangement contains a Lease, which is effective for annual periods beginning on or after 1 January 2006.

IFRIC 4 gives guidance on determining whether arrangements that do not take the legal form of a lease (eg some take-or-pay contracts) should, nonetheless, be accounted for in accordance with IAS 17 Leases. It specifies that an arrangement contains a lease if it depends on the use of a specific asset and conveys a right to control the use of that asset.

IFRS 6 Exploration for and Evaluation of Mineral Resources

The International Accounting Standards Board (IASB) issued on 9 December 2004 International Financial Reporting Standard 6 Exploration for and Evaluation of Mineral Resources (IFRS 6). The publication of this IFRS provides, for the first time, guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets, and completes the first step in the IASB's project to achieve the convergence of widely varying accounting practices for extractive activities around the world.

IFRS 6 is effective for annual periods beginning on or after 1 January 2006. However, earlier application is encouraged, and if an entity adopts IFRS 6 before 1 January 2006, transitional relief is available for some comparative disclosures.

This standard will not impact the Bank's financial statements.

Amendment to IAS 19 Employee Benefits

The International Accounting Standards Board (IASB) issued on 16 December 2004 an amendment to IAS 19 Employee Benefits, which is effective for annual periods beginning on or after 1 January 2006. The IASB has decided to allow the option of recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in a statement of recognised income and expense.

Until now IAS 19 has required actuarial gains and losses (ie unexpected changes in value of the benefit plan) to be recognised in profit or loss, either in the period in which they occur or spread over the service lives of the employees. Many entities choose to spread the gains and losses. Under the amendment, entities that at present spread the gains and losses are not required to change their approach, but are now free to choose to do so.

The amendment also (a) specifies how Bank entities should account for defined benefit Bank plans in their separate or individual financial statements and (b) requires entities to give additional disclosures.

The IASB has previously signalled its intention to undertake a comprehensive project on post-employment benefits, looking at fundamental aspects of measurement and recognition.

Amendment to the hedge accounting provisions of IAS 39 Financial Instruments: Recognition and Measurement

The International Accounting Standards Board (IASB) issued on 14 April 2005 an amendment to the hedge accounting provisions of IAS 39 Financial Instruments: Recognition and Measurement.

The IASB developed this amendment after constituents raised concerns that it was common risk management practice for entities to designate the foreign currency risk of a forecast intragroup transaction as the hedged item and that IAS 39 (as revised in 2003) did not permit hedge accounting for this. Furthermore, IAS 39 (as revised in 2003) created a difference from US accounting requirements on this point.

Following publication of an Exposure Draft and extensive consultation with constituents, the IASB has decided to allow the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in financial statements. This is consistent with the provisions of the international accounting standard on foreign currency, IAS 21 The Effects of Changes in Foreign Exchange Rates.

Amendment to the fair value option in IAS 39 Financial Instruments: Recognition and Measurement

The International Accounting Standards Board (IASB) issued on 16 June 2005 an amendment to the fair value option in IAS 39 Financial Instruments: Recognition and Measurement. The amendment is effective for annual periods beginning on or after 1 January 2006, with earlier application encouraged.

The IASB developed this amendment after commentators, particularly supervisors of banks, securities companies and insurers, raised concerns that the fair value option contained in the 2003 revisions of IAS 39 might be used inappropriately. The option allowed entities to designate irrevocably on initial recognition any financial instruments as ones to be measured at fair value with gains and losses recognised in profit or loss. The purpose of the option was to simplify the application of the standard.

Following publication of an exposure draft on the 21 April 2004 and extensive consultation with interested parties, the IASB has decided to revise the fair value option by limiting its use to those financial instruments that meet certain conditions.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures

The International Accounting Standards Board (IASB) issued on 18 August 2005 International Financial Reporting Standard (IFRS) 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures.

The IFRS introduces new requirements to improve the information on financial instruments that is given in entities' financial statements. It replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and some of the requirements in IAS 32 Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces requirements for disclosures about an entity's capital.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts

The International Accounting Standards Board (IASB) issued on 18 August 2005 amended requirements for financial guarantee contracts, in the form of limited amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts.

The amendments are intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. The amendments define a financial guarantee contract as a 'contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument'. These contracts could have various legal forms, including a guarantee, some types of letter of credit, or a credit insurance contract.

Issuers must apply the amendments for annual periods beginning on or after 1 January 2006.

Amendment to International Accounting Standard (IAS) 21 The Effects of Changes in Foreign Exchange Rates

The International Accounting Standards Board (IASB) issued on 15 December 2005 a limited amendment to International Accounting Standard (IAS) 21 The Effects of Changes in Foreign Exchange Rates. The amendment clarifies the requirements of IAS 21 regarding an entity's investment in foreign operations and will therefore help the financial reporting of entities that invest in businesses operating in a currency different from that used by the entity.

The Amendment has not yet been endorsed by the European Commission (EC).

9.
Report and Opinion of the Supervisory Board (Individual Accounts)

Dear Shareholders,

1. In accordance with legal and statutory requirements, we hereby present our report on the audit activity performed and our opinion on the Annual Report and accompanying Balance Sheet and Changes in Shareholders' Funds Statements as at 31st December 2005, and Profit and Loss and Cash-flow Statements for the year ended 31st December 2005 and related Notes, presented to us by the Board of Directors of Banco Espírito Santo de Investimento, S.A., (the "Bank" or the "Company"), which we have examined.

2. It is our duty to inform you that the Chairman of the Supervisory Board, Mr. Bernardo Leite Faria Espírito Santo, has presented his resignation from the post he has held for many years at the Bank. We would like to thank him for his dedication, professional competence and involvement, which have greatly benefited our Company.

3. We were responsible for the examination of, and the preparation of a report and our opinion on, the previous year's Annual Report and Accounts.

4. We have assessed the Directors' most relevant judgements and decisions and we have met frequently with the Board of Directors, who have kept us regularly informed on the policies adopted by the Bank.

5. The Annual Report and Accounts were examined by us, in order to obtain a sufficient understanding of the Bank's operations. We state that:

   5.1 We examined the accounts and found these were audited, to a sufficient depth, in accordance with the applicable Rules and Auditing Standards in Portugal (Recommendations by the Portuguese Institute of Chartered Accountants - *Directrizes de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas*).

   5.2 We examined the books and underlying accounting and financial records and supporting materials and found them in compliance with applicable legal and statutory requirements.

   5.3 We performed the necessary examination of the balance sheet control checks, using generally accepted auditing procedures.

   5.4 We reviewed the basis for calculation of the amounts included in the financial statements to ensure that a consistent and standard approach was used over the years and that sufficient explanation of the amounts was included in Note 2 of the Notes to the financial statements. Likewise we report that the basis for calculation used to prepared the financial statements was in accordance with the adjusted accounting standards ("NCA", *Normas de Contabilidade Ajustadas*) as endorsed by the Bank of Portugal and by which the Bank is governed.

6. The Board of Directors' Annual Report includes all material facts, provides sufficient explanation on the Accounts and explains the most important aspects of the management of the Company.

7. In the view of the above, taking into account the Statutory Audit, with which we agree, and given that to our knowledge there has been no infringement of legal and statutory requirements, we are of the opinion that:

   1. The Annual Report prepared by the Board Directors, the Balance Sheet, the Profit & Loss, the Cash-flow and the Changes in Shareholders' Funds Statements as at and for the year ended 31st December 2005 and related notes be approved;
   2. The proposal for the distribution of the profit for the year ended 31st December 2005 be approved; and
   3. A vote of praise to the Board Directors for the discerning and efficient management of the Bank is given.

Lisbon, 15th March 2006

THE SUPERVISORY BOARD
José Manuel Macedo Pereira
Tito Neves Magalhães Basto

Dr. José Maria Ribeiro da Cunha representing:
"AMAVEL CALHAU, RIBEIRO DA CUNHA E ASSOCIADOS
- Sociedade de Revisores Oficiais de Contas -"

10.
Statutory Audit and Independent Auditor's Report (Individual Financial Statements)

INTRODUCTION

1. In accordance with applicable legislation, we hereby present our Statutory Audit and Independent Auditor's Report on the financial information included in the Annual Report and Accounts as at and for the year ended 31st December 2005 of the Banco Espírito Santo de Investimento, S.A. (the "Bank"). The financial information includes Balance Sheet (reporting assets of 1,511.200 million euros, shareholders' funds of 151.866 million euros and net profits of 67,546 million euros), Profit & Loss including a breakdown by function and nature, Cash-Flow and Changes in Shareholders' Funds Statements as at and for the year ended 31st December 2005 and related Notes.
2. The amounts included in the financial statements and additional financial information are consistent with the underlying financial and accounting records.

RESPECTIVE RESPONSABILITY

3. The Board of Directors is responsible for:

   a) The preparation of the financial statements in accordance with adjusted accounting standards (NCA) as endorsed by the Bank of Portugal, which follows the internationally generally accepted accounting standards in the EU (IFRS), with the exception of items included in the Amendments to the NCA nos. 1/2005 (clauses 2 and 3) and 4/2005 (clause 2) issued by the Bank of Portugal. The financial statements must present a true and fair view of the financial situation of the Company and of its profit and loss and cash-flow positions;

   b) The historical financial information must be prepared in accordance with generally accepted accounting principles and present a complete, true and fair, to date, transparent, objective and lawful view of the financial situation of the Bank in accordance with the Securities' Market Code;

   c) Adopting appropriate accounting policies and criteria;

   d) Maintaining necessary and sufficient internal controls; and

   e) Disclosing any relevant factor that may have affected the operations, financial situation or results of the Company.

4. We are responsible for auditing the financial information included in the financial statements and for issuing an independent and professional report on whether the information is complete, true and fair, to date, transparent, objective and lawful, as required by the Securities' Market Code.

SCOPE

5. Our audit was performed in accordance with applicable Rules and Auditing Standards in Portugal (Recommendations by the Portuguese Institute of Chartered Accountants - *Directrizes de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas*) which require us to plan and perform our audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. Our audit therefore included:

   - An examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and of the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements;

   - An assessment of whether the accounting policies were appropriate to the circumstances of the Company and that these were adequately disclosed;

   - Verification as to whether the going-concern principle is applicable;

   - An assessment of whether the financial statements present a sufficient representation of the company's overall financial situation; and

   - An assessment of whether financial information presented is complete, true and fair, to date, transparent, objective and lawful.

6. Our audit also included an examination that the amounts disclosed in the Accounts and in the Annual Report are consistent with the amounts presented in the company's books and underlying financial and accounting records.

7. We believe that our audit provides a reasonable basis to express our opinion.

OPINION

8. It is our opinion that the financial statements referred to above present a true and fair view, in all material aspects, of the financial situation of "Banco Espírito Santo de Investimento, S.A.", as at and for the year ended 31st December 2005, and that the Profit & Loss and Cash-Flow Statements, prepared in accordance with the adjusted accounting standards (NCA) as endorsed by the Bank of Portugal, and all information contained therein is complete, true, to date, transparent, objective and lawful.

Lisbon, 15th March 2006

José Maria Ribeiro da Cunha representing:
"AMAVEL CALHAU, RIBEIRO DA CUNHA E ASSOCIADOS
- Sociedade de Revisores Oficiais de Contas -"

11.
Auditors' Report

Introduction

1. We have audited the accompanying financial statements for the year ended 31 December 2005, of Banco Espírito Santo de Investimento, S.A., which comprise the balance sheet as at 31 December 2005 (showing total assets of Euros 1,511,200 thousand and total equity of Euros 151,866 thousand, including a profit for the year of Euros 67,546 thousand), the statements of income, of cash flows and of changes in equity for the year then ended and the corresponding Notes to the accounts.

Responsibilities

2. The Board of Directors is responsible for:

   a) the preparation of financial statements in accordance with the NCA's issued by the Bank of Portugal, that present fairly, in all material respects, the financial position of the Bank, the results of its operations and its cash flows. The NCA's are based on the application of International Financial Reporting Standards ('IFRS') as adopted for use in the European Union, with exception of the issues defined in no.2 and no.3 of Regulation no. 1/2005 and no. 2 of Regulation no. 4/2005;

   b) the adoption of adequate accounting policies and criteria; and

   c) maintaining an appropriate system of internal control.

3. Our responsibility is to issue a professional and independent report based on our audit.

Scope

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

   - verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;

   - assessment of the appropriateness of the accounting policies used and of their disclosure, taking into account the circumstances applicable;

   - verification of the application of the going concern principle; and

   - assessment of the appropriateness of the overall presentation of the financial statements.

5. Our review also included the verification that the financial information contained in the Annual Report of the Board of Directors is consistent with the financial statements presented.

6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the financial statements referred to above present fairly in all material respects the financial position of Banco Espírito Santo de Investimento, S.A. as at 31 December 2005, the results of its operations and its cash flows for the year then ended in accordance with the NCA's issued by the Bank of Portugal.

Lisbon, 30 March 2006

KPMG & Associados, SROC, S.A.
Represented by
Inês Maria Bastos Viegas Clare Neves Girão de Almeida
(ROC n. 967)

12.

EXTRACT OF MEETING MINUTES NUMBER FIFTY FROM THE UNIVERSAL SHAREHOLDERS' MEETING OF 31st MARCH 2006 WITH RESPECT TO THE APPROVAL OF THE ANNUAL REPORT AND ACCOUNTS FOR THE YEAR 2005 AND THE RESPECTIVE PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT FOR THE YEAR

"(...)

The first point of the agenda was then addressed. Mr. José Maria Ricciardi made a short presentation on the main themes and events that had marked the Bank's activity in the year two thousand and five. Once the presentation was finished and given no one had any questions, the Board of Directors' Annual Report and Accounts for the Bank for the year two thousand and five were put to the vote. The Annual Report and Accounts were approved by the sole shareholder.

Next, point two of the agenda was considered. Again Mr. José Maria Ricciardi addressed the meeting, on behalf of the Board of Directors, and presented the proposal for the distribution of the profit for the year agreed to by the Board of Directors at the meeting of 10th March 2006: "Given the net profit as at 31st December 2005 was sixty-seven million five hundred and forty-six thousand three hundred and eighty-one euros and eighty-two cents, the Board of Directors, within its statutory rights, proposes to the Annual General Meeting the following distribution for the year: (i) to the legal reserve: six million seven hundred and fifty-four thousand six hundred and thirty-eight euros and eighteen cents; (ii) for the distribution of dividends: twenty-two million six hundred and thirty-four thousand nine hundred and forty-eight euros and sixty-three cents (of which twenty million euros have already been paid as anticipated dividends during the course of the year); and (iii) to free reserves: thirty-eight million one hundred and fifty-six thousand seven hundred and ninety-five euros and one cent." As there were no questions, the proposal then proceeded to a vote and was approved by the sole shareholder.

Point three on the agenda followed, whereby the Board of Directors' Annual Report and Consolidated Accounts for the Bank for the year two thousand and five were approved by the sole shareholder.

(...)"

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1.
Introduction

1.1.
Main Recommendations on Corporate Governance

The Board of Directors of Banco Espírito Santo de Investimento, S.A. (the "Bank" or "BES Investimento") hereby presents the annual Corporate Governance Report following the model established by the Portuguese Securities Market Commission ("CMVM" - the Comissão do Mercado dos Valores Mobiliários) in regulations nos. 07/2001 and 11/2000 - Governance of Listed Companies, and subsequent updates: CMVM regulations nos. 11/2003 and 10/2005.

These regulations do not apply to the Bank as a legal requirement in so far as the Bank has no shares admitted to trading on a regulated market. BES Investimento has decided to produce this report, however, to ensure best practice, in accordance with Grupo Banco Espírito Santo's ("BES Group") own corporate governance, and has based the report on the recommendations on the Governance of Listed Companies (the "Recommendations") approved by the CMVM in 1999 and updated in November 2003 and November 2005.

It is important to note than some recommendations, such as restrictions on the exercise of voting rights or measures adopted to prevent a public take-over, are not applicable to the Bank as it has only one shareholder.

On the whole the Bank has adopted the Recommendations, with the exception of those mentioned above. We include a summary of the recommendations adopted, which are described in more detail in the following chapters:

- Use of Internal Controls designed to detect risks inherent to the business, which could affect asset quality, and to maintain transparent corporate governance – chapter 5;
- Appointment of several Directors to the Board to ensure effective control of the executive body and the company – Chapters 6.1 and 6.2;
- Appointment of non-executive including independent directors to provide objective judgement to the executive directors – Chapter 6.1;
- Creation of Internal Controls Committees experienced in corporate structure and governance – Chapter 6.4;
- Ensure Board remuneration is aligned with the strategic objectives of the Company – Chapter 6.5;
- Ensure that the Remuneration Committee, or equivalent body, responsible for the remuneration of the Board Directors is independent – Chapters 3.3 and 6.5, which also includes descriptions of the allocation of BES shares, under the Incentive Plan, to Board Members and other professionals; and
- Creation of disclosure controls and procedures, regarding any irregular event in the Company – Chapter 5.3.

1.2.
Highlights

We highlight the main corporate governance events in 2005:

- We elected our Governing Bodies for a four-year term (2005 to 2008) at the 30th March 2005 AGM.

The AGM Board and the members of the Supervisory Board are described in chapters 4 and 2.2.

In chapter 6, we describe the Board and the Executive Committee members. The Board elected the Executive Committee on 31st March 2005.

- Our strategy remains focused on building market and presence in Portugal, Spain and Brazil. We are restructuring our brokerage business in the Iberian Peninsula; expanding our asset management operations in Brazil; have acquired the BES Group's private equity arm; and extended our corporate finance territories.

In terms of the brokerage business we highlight the following:

1. On 3rd January 2005, the merger by incorporation of Espírito Santo Dealer – Sociedade Financeira de Corretagem, S.A. ("ES Dealer") into BES Investimento was completed. The Bank as a result became trading member of each of the four Euronext markets, a function previously undertaken by ES Dealer.

2. We are creating a Spanish Branch which will run the Bank's investment banking business in the region, currently conducted under the EU passport, and run the brokerage and related businesses of Espírito Santo Investment, S.A.U., S.V., ("ESI Spain"), a Spanish brokerage firm wholly owned by BES Investimento.

The Spanish Branch, which was registered at the Registro Mercantil (Companies House) in Madrid on 6th September 2005, will start operating when the ESI Spain merger is complete and ESI Spain's assets and liabilities have been transferred to the branch. On 24th August 2005, the Bank bought from ESSI, Sociedade Gestora de Participações Sociais, S.A. ("ESSI") its 100% shareholding in ESI Spain, and requested merger approval from the Bank of Portugal and the Spanish Securities Market Commission (the "CMNV") on 12th and 19th of September 2005 respectively. The Bank of Portugal approved the merger on 3rd January 2006. In accordance with the Merger Project, the merger will be effective as of 1st January 2006 for accounting and fiscal purposes.

In Brazil, the Bank expanded its asset management capabilities by acquiring Morumbi Capital, S.A., a hedge fund specialist, in April 2005, through the Brazilian holding company, Espírito Santo de Investimentos, S.A..

In Portugal, the Bank acquired through ESSI, Espírito Santo Capital – Sociedade de Capital de Risco, S.A. ("ES Private Equity"), given that its risk capital / private equities business was complementary to BES Investimento's strategy and activities in the Iberian Peninsula.

In terms of extending our corporate finance territories, we highlight:

1. The creation of a new company in Poland in October 2005 to run advisory and financial consultancy services in the areas of capital restructuring, M&A and Project Finance: Concórdia Espírito Santo Investment Sp. z.o.o. ("Concordia BES Investimento"), where the Bank holds 49% through ESSI with the remainder being held by Concórdia Sp. z.o.o., a Polish company which since 1995 has been active in advising Polish and other multinational companies on large M&A deals.

2. The creation of a representative's office in Luanda, Angola, dealing with Project Finance advisory services.

- To improve overall performance and competitive positioning, BES Investimento restructured the Bank in June 2005 and created two new divisions and two Committees to provide strategic business guidance to the Executive Committee:

  1. The restructuring of the Project Finance and Securitisation Division. The old Project Finance team will now run the securitisation business, previously undertaken by the Fixed Income and Capital Markets Origination teams, given the natural fit with Project Finance operations and expertise.

  2. The creation of a Strategic Planning Division to assess expansion projects, new products and new territories within a medium term horizon.

  3. The creation of an International Division to supervise operations in the various international markets where the Bank operates, excluding Brazil, Spain and the UK where the Bank has sufficient local representation. This Division replaces the Emerging Markets Division.

  4. The formation of a Capital Markets Committee and an Investment Banking Committee to advise the Executive Committee on business and product strategy.

- BES Investimento was assigned A- long-term and A-2 short term ratings with a stable outlook by Standard & Poor's in January 2005 and again in February 2006. In February 2005, the Euro Medium Term Notes ("EMTN") Program for 500 million euros, issued by the Irish subsidiary Espírito Santo Investment p.l.c. ("ES Investment Ireland") received the same ratings as above for its senior debt and BBB+ for its subordinated debt. Standard & Poor's maintained its ratings after the Program was increased to 1.5 billion euros in November 2005.

2.
Company Structure and Accountability

2.1.
Organisational Structure

As at 31st December 2005, BES Investimento had four main business divisions:

i) Client Relationship

ii) Product Divisions

iii) Support Departments

iv) London and Madrid branches





(*) The Madrid Branch was registered on 6th September 2005 and will start operating on 1st January 2006, once the merger by incorporation of ES Investment (Spain) in BES Investimento is finalised. The Branch will inherit all assets and liabilities from the former subsidiary.

A description of the Board, the Executive and other Committees is included in Chapter 6.

We describe in this section the operations of each Division and support department including the Heads of Division or department. On the whole, the divisions' activities are global and govern operations in each branch (Portugal, Spain and the UK) and subsidiary (Spain and Brazil).

i) Client Origination

BES Investimento's Front Office acts along two lines: the Client Relationship Division, responsible for business origination, which works closely with the Product Divisions, to provide a comprehensive service to the Bank's clients on complex or multi-product transactions, for e.g.: corporate finance advisory services combined with financial restructuring or for e.g. interest-rate risk management.

Rafael Caldeira de Castel-Branco Valverde, Board Director, manages the Client Origination Division and works closely with BES Large Companies' Division in order to promote wholesale banking.

The Division's mission is to maintain a close relationship with its Clients, reacting consistently and proactively to Clients' needs.

Each territory has its own Client Relationship Manager which in Spain, the UK and Brazil is resident.

ii) Products

The Bank has the following product divisions:

ii.1 - Capital Markets Origination

Directors: Rafael Valverde and Luís Luna Vaz

This Division is subdivided into Equities and Fixed Income:

ii.1.a Equities

The division's main functions are the structuring and syndication of capital markets' share issues, such as IPOs, privatisations, capital increases, block trades, take-overs, listings and equity-linked products (convertibles, warrants, etc) in Portugal, Spain and Brazil.

ii.1.b Fixed Income

The Fixed Income Division is responsible for originating (from corporate, Government or multinational clients), arranging and syndicating debt transactions, whether structured or plain vanilla (bonds, commercial paper and loans), including straight and asset-backed debt. This Division covers the Iberian market and Brazil.

ii.2 - Secondary Market - Equity

Directors: Francisco Ravara Cary and Luís Luna Vaz

This Division now runs the brokerage business transferred as a result of the merger of ES Dealer completed on 3rd January 2005. As such, the Bank became trading member of the four Euronext markets.

Secondary Market - Equity includes the Research Team (which covers the main Iberian companies with special focus on the main PSI20 and IBEX35 companies) and the Proprietary Trading Team.

ii.3 - Financial Services

Directors: Rafael Valverde and Paulo Lameiras Martins

This Division works closely with the Client Relationship Division in the structuring and execution of M&A transactions, and company valuations associated with M&A or other Divisions' transactions, for Portuguese and international clients, with particular emphasis on cross-border transactions with the Spanish, Brazilian and UK branches and other subsidiaries.

ii.4 - Espírito Santo Financial Advisory

Director: Rafael Valverde

This division was created in 2004 in partnership with BES Medium Sized Companies' Division to develop investment banking services for medium-sized companies and works closely with the Financial Services Division. The division lends M&A advisory and pure advisory (valuations, feasibility studies, financial advisory, shareholder and company restructuring and other) services.

ii.5 - Leverage Finance

Director: Rafael Valverde

This Division works closely with the Client Relationship Division and the BES and ESI Spain Client teams to provide BES Group clients with structured debt finance services, namely on leverage and management buy-outs and non-recourse or releverage financing.

The Divisions seeks to position itself as lead-arranger or underwriter of these transactions and to execute its syndication, when deal size and transaction nature warrant it.

ii.6 - Project Finance and Securitisation ("PF&S")

Director: Pedro Ferreira Neto

Again working closely with Client Relationship and the corresponding teams in BES Investimento do Brasil ("BES Investimento Brazil"), ESI Spain and BES Group Origination teams, this Division is in charge of (a) non-recourse and limited-recourse financing related to investment projects, which includes contract negotiation, concessions and Public Private Initiatives ("PPIs"); and (b) providing BES Group's Clients with high quality execution on advisory services, both in terms of arranging and lending, by providing the best financing structures given market conditions.

The PF&S division also manages the BES Group project finance portfolio and its securitisation operations namely in the areas of: (a) origination and structuring of securitisation transactions for BES Group and its clients; and (b) development of the best structures for off-balance, asset-based and limited recourse financing, accessing capital markets through the securitisation law, to obtain best funding available for BES Group clients.

ii.7 - Equity Derivatives and Arbitrage

Director: Christian Minzolini

This division is mainly involved in the sale of derivatives and hedge instruments, and proprietary trading and manages the Bank's OTC derivatives account.

ii.8 - Fixed Income

Director: Francisco Cary

This division is sub-divided into three areas:

a) Treasury;
b) Sales and Trading
c) Risk Management

ii.8.a Treasury

This area manages (a) the balance sheet (including interest-rate and liquidity risk management in accordance with the Assets and Liabilities Committee's ("ALCO") directives) to ensure regulatory ratios and requirements are maintained and that the capital structure is optimised; (b) the issuance of debt and pricing of liabilities; (c) the debt portfolio (taking into account diversification, quality and profitability) in order to control risk and maintain a stable source of revenues; and (d) the internal transfer pricing for assets and liabilities used, to ensure the correct allocation of costs to the various business originating units.

ii.8.b Sales and Trading

This area runs (a) trading, on a proprietary basis and for clients, on public, foreign, other Euromarket and corporate debt securities; and (b) the placement of debt products structured by the Capital Markets Origination – Fixed Income Division, with domestic and international institutional investors.

ii.8.c Derivatives and Risk Management

This area structures and manages (a) new structured products (derivatives) for the transactions mentioned above; and (b) exchange and interest rate risk hedging instruments used to protect both the Bank's own and Clients' Balance Sheets.

iii) Support Departments

These departments aim to provide (a) the Executive Committee support on strategic planning and international expansion, and (b) logistics support to the Bank activities. The latter include BES units with responsibilities throughout BES Group companies..

iii.1 - Strategic Planning

Director: José Maria Espírito Santo Silva Ricciardi

This division measures the Bank's competitive positioning in its various markets and advises on proactive and reactive measures to ensure the Bank maintains its competitive edge. The division also prepares the mid-term strategic plan and manages the work-groups required to prepare associated market and/or feasibility studies on new projects or strategic actions.

iii.2 - International

Director: Pedro Ferreira Neto

This division manages activities in all the international markets where the Bank is active, with the exception of Brazil, Spain and the UK where the Bank has sufficient representation. It advises the Executive Committee on international expansion and is responsible for the identification of target markets, development and implementation of the business plan appropriate for each market, including client origination and suitable products. Its overall aim is to increase international opportunities for its target client base.

iii.3 - Information and Management Reporting Systems ("IMRS")

Director: Tiago Vaz Pinto Cyrne de Castro

This division is in charge of all information and management reporting systems, both at an individual and at a consolidated level (including Portugal, Spain, Brazil and Ireland), used to measure profitability at each branch and each business unit. The IMRS also prepares annual budgets and measures performance against these budgets.

iii.4 - Risk Management

Director: Tiago Cyrne de Castro

This department has two separate units, namely:

iii.4.a Risk Control

The department controls, monitors and reports on market, credit and operating risk for each of the Bank's operating units, both individually and on a consolidated basis (Portugal, Spain, Brazil, UK and Ireland), and supervises the Bank's various subsidiaries such as ESI Spain, BES Investimento Brazil and its subsidiaries, and ES Investment Ireland. The team also analyses market risk for specific transactions if the Bank is taking a risk position and will review the risk factors used to assess market risk limits.

Risk Control collects, prepares, controls and distributes, on a daily basis, information to each business unit on positions within each portfolio and the approved limits (VaR, stop losses, concentration, etc.). Every week, the team prepares a Risk Profile Report on the Bank's loan book (overall exposure by instrument, country, internal rating, sector, etc,). Risk Control tools are developed and information is prepared for the various credit, counterpart, liquidity and market risk reports required both for external and internal compliance purposes. Risk Control calculates, monitors and reports on the regulatory ratios and requirements, with particular focus on the solvency ratio. In addition, this department also controls operating risk within the Bank.

The department works closely with the BES' Global Risk Department in the identification, quantification and control of the different risk positions in order to assess the BES Group's (including all companies and subsidiaries within the scope of consolidation) overall risk exposure. It ensures that the procedural guidelines set out by the BES Executive Committee are followed and that the same risk control approach and tools are used throughout the Group.

iii.4.b Credit Risk

This team is part of the BES Group credit ratings' team and analyses credit risk and allocates internal ratings to the Bank's clients and transactions.

iii.5 - Compliance

Director: José Maria Ricciardi

This department is responsible for tracking changes in regulation and ensuring compliance with the various regulatory authorities, such as the CMVM and other Securities and Exchange Commissions, Central Banks and Government agencies; and ensuring that prevailing regulation is reflected in the Bank's internal controls, under the aegis of the Executive Committee, for the prevention of situations which could lead to money-laundering and insider-trading activities.

The department is responsible for compliance in BES Investimento and its London and Madrid branches, ES Investment Ireland, ES Private Equity, ESI Spain, BES Investimento Brazil (which includes the securities trading arm: BES Securities do Brasil – Corretora de Câmbio e de Valores Mobiliários and the asset management arm: BESAF – BES Activos Financeiros, Lda.).

iii.6 - Legal

Director: Francisco Cary

The team provides legal advisory, tax advisory and litigation services to the Bank and works closely with Risk Management and Compliance on legal risks and compliance issues.

iii.7 - Accounting

Director: Tiago Cyrne de Castro

The team manages the accounting and reporting procedures for the Bank and the reporting requirements, together with the Risk Control team, for the Bank of Portugal.

iii.8 - Operations

Director: Tiago Cyrne de Castro

This is the back-office for each operating unit involved in execution and settlement of credit loans, guarantees, securities transactions and custody, transfers and other transactions.

iii.9 - Information Technology ("IT")

Director: Tiago Cyrne de Castro

The team manages IT for all information and management reporting systems across the Bank; manages the communication systems; undertakes routine checks and upgrades; and provides support services to users. In addition, the team must provide cover for the IT system its back-up and design, and execute contingency and recovery measures.

iii.10 - Corporate Communications and Image

Director: Tiago Cyrne de Castro

This Division is responsible for BES Investimento's (and all its branches and subsidiaries) corporate image, the institutional website, marketing and advertising campaigns and all media contact.

iii.11 - Human Resources ("HR")

Director: José Maria Ricciardi

This department is in charge of all HR, annual staff costs budgets, payroll and expenses.

iii.12 - Organisation´s Resources

Director: José Maria Ricciardi

This team reports to the HR Director and supervises building facilities, reception, mail and external services. In addition, the department is in charge of safety (people and contents) within the Bank.

iii.13 - Information

Director: Rafael Valverde

The Department is responsible for the processing and storage of all electronic information received and for the management of the archive files and records (which are microfilmed).

iii.14 - Audit

This is a BES Group department and is responsible for all Group companies' (including BES Investimento and its subsidiaries) audits and inspections.

Its activities are described in more detail in chapter 5.4.

iv) London and Spanish Branches

The London Branch started operating on 3rd February 2003 providing advisory and Project Finance arranging services and is managed by a resident General Manager who reports to the Head of the Project Finance and Securitisation Division, Pedro Ferreira Neto.

The Spanish Branch was registered commercially on 6th September 2005 and with the Bank of Spain on 16th September 2005. Operations will commence with reference date of 1st January 2006, once the merger of ESI Spain into BES Investimento had been completed and all ESI Spain's assets and liabilities had been transferred to the Branch. The Bank of Portugal approved the merger on 4th January 2006. Spanish authority approval is still pending.

2.2.
Independent Company Controls

BES Investimento is a credit institution governed by the Portuguese Banking Regulations and its operations have been authorised by the Bank of Portugal since April 1993. Its banking activities are regulated by the Credit Institutions and Financial Services Companies Act (Regime Geral das Instituições de Crédito e Sociedades Financeiras) approved by law (Decreto-Lei nº 298/92), on 31st December 1992. Its operations as a financial agent operating in capital markets are regulated by the Securities Markets Code, approved by law (Decreto-Lei nº 486/99), on 13th November 1999 and associated legislation. As a sociedade anónima, its articles of association are governed by the Portuguese Company Code approved by law (Decreto-Lei nº 262/86), on 2nd September 1986.

The structure and team of the company's internal controls are in compliance with the legal and regulatory requirements mentioned above.

2.2.1.

Internal Controls – the Supervisory Board

The Supervisory Board has three permanent members and a replacement member. BES Investimento's Supervisory Board was elected at the 30th March 2005 AGM for a four-year term (2005-2008). As at 31st December 2005, it had the following members:

Chairman	Bernardo Leite de Faria Espírito Santo
Permanent Members	Tito Manuel das Neves Magalhães Basto
	"Amável Calhau, Ribeiro da Cunha e Associados – Sociedade de Revisores Oficiais de Contas",
	Represented by:
	José Maria Sousa Rego Ribeiro da Cunha, Official Auditor
Replacement Member	José Manuel Macedo Pereira, Official Auditor

One permanent member and the replacement member must be Official Auditors or belong to an Official Accounting Firm and must not be shareholders.

The other members may be shareholders but must be physical persons and not companies unless the companies are law or official auditing firms.

The Supervisory Board members' eligibility is governed by law in order to safeguard their independence and eligibility for the role.

The Supervisory Board Members are elected at the AGM for four-year terms in accordance with the Bank's Articles of Association and can be re-elected.

The Supervisory Board is responsible for:

a) Supervising the management of the company;
b) Compliance with law and articles of association;
c) Verifying the books, accounting and financial records and supporting materials;
d) Verifying the accuracy of the Balance Sheet and Profit and Loss Statements;
e) Verifying that the calculations used by the company present a true and fair view of the company's balance sheet and profit and loss position;
f) Provide, once a year, a report on its supervisory activity and an Opinion on the Annual Report and Accounts and any proposal presented by the Bank's management; and
g) Preparing, once a year, an Opinion on the Bank's Internal Controls for the Bank of Portugal, in accordance with Ruling no. 72/96.

The Supervisory Board is also responsible for supervising the activity of the Official Auditors. It must inform, by registered letter, the Chairman of the Board of Directors, as soon as it is aware of any serious infringement of the company's obligations such as payments to suppliers, bad debts, doubtful cheques or failure to pay social security or taxes.

If any member of the Supervisory Board detects any irregularity in the company's dealings, that member must inform the Official Auditor immediately, by registered mail.

The Supervisory Board should meet every quarter or any time a meeting is convened by its Chairman, either on his own behalf, or on behalf of another member, or at the Board of Directors' request. For the Supervisory Board to proceed to a vote, a numerical majority of its members must be present. The Chairman of the Supervisory Board has a casting vote, in the case of a tied vote.

On 20th February 2006, Mr. Bernardo Leite de Faria Espírito Santo resigned as Chairman of the Supervisory Board, and Mr. José Manuel Macedo Pereira, Official Auditor, who until then was the replacement member, became the Chairman. These proposed changes are on the agenda for the March 2006 AGM.

2.2.2.
External Controls

External Auditors

The firm "Amável Calhau, Ribeiro da Cunha & Associados, S.R.O.C." is the Bank's independent external auditor, as defined by and as such registered with CMVM. The firm has been responsible since 1993 for the Independent Auditors' Report and Statutory Audit for the Bank's individual and consolidated accounts, in addition to the limited liability financial reports prepared every six months.

The firm "Amável Calhau, Ribeiro da Cunha & Associados, S.R.O.C." is a permanent member of the Bank's Supervisory Board, represented by Mr. José Maria Sousa Rego Ribeiro da Cunha, Official Auditor.

The individual and consolidated accounts are also audited by KPMG & Associados, S.R.O.C., S.A., BES' External Auditor, which includes the KPGM firm (who are the BES Group's international accountants and auditors).

KPMG is the independent accountant to the Bank's subsidiaries in Brazil, Ireland and Spain.

Regulatory Authorities

BES Investimento's business and structure is regulated by the Bank of Portugal and its trading and operations as securities broker and dealer by the CMVM.

The Bank of Portugal regulates credit institutions and financial services companies and aims to ensure the stability and solidity of the banking system and efficiency of its operations, in order to protect consumers and deposits and users of the financial system.

In accordance with the Credit Institutions and Financial Services Companies Act, the Bank of Portugal, in specific, can authorise the creation of a credit institution or a financial services company where prudent technical criteria apply. As such it is authorised to monitor these companies' activities; ensure regulatory compliance; issue recommendations on how the company should act in the event of an irregularity; opine on and deal with malpractice; and provide extraordinary measures in the case of infringement.

The CMVM regulates and supervises the securities' markets and the activities of its agents. In addition, CMVM regulates and supervises all public take-overs and offers and, at a procedural level and market control level, market makers and agents and collective investment entities (securities and real estate funds).

The Brazilian, Spanish, UK and Irish subsidiaries and branches are regulated by the banking and market supervisory authorities in their respective jurisdiction.

3.
Disclosure of Corporate Information

3.1.
Share Price Performance

BES Investimento's share capital is 70,000,000.00 euros, split into 14,000,000 shares with nominal unit value of 5.00 euros and is wholly owned by BES. It is not a publicly traded company.

The gross dividend per share paid by BES Investimento to its sole shareholder in 2004 was 1.7709 euros, which corresponds to total dividends of 24,792,337.16 euros.

3.2.
Dividend Distribution Policy

Dividend distribution depends on market conditions, BES Investimento's financial results and other factors which the Board of Directors may consider relevant.

Accordingly, and as described in the proposal on the distribution of the profit for the year 2005, the Bank's Board of Directors will propose at the next AGM a gross dividend of 1.61(7) euros per share amounting to a total dividend payment of 22,634,948.63 euros.

3.3.
Staff Remuneration and Share and Share Options Plans

The Executive Directors and BES Investimento professionals receive:

- Fixed compensation (salary); and
- Variable compensation

The Executive Directors' salaries are determined by the Bank's sole shareholder Banco Espírito Santo, S.A. ("BES") and the staff salaries are approved by the Executive Committee. The remuneration of the Executive Directors and professionals follows the Collective Wage Agreement (*Acordo Colectivo de Trabalho Vertical do Sector Bancário, "ACTV"*) for the Portuguese Banking sector.

Variable compensation applies to all professionals and includes:

- Bonuses
- Incentive plans

Bonuses are linked to the Bank's financial performance and are based on Performance Assessment System ("PAS").

PAS applies exclusively to professionals (excludes Executive Directors) and assesses skills and achievement of specific and business targets. The employees' assessment process involves the employees themselves, their immediate superiors and relevant Heads of Division(s).

The Bank's incentive plan is based on the BES Group share-based incentive plan (the "Incentive Plan") and complies with all the conditions and objectives set by BES. The Incentive Plan was approved at the BES AGM on 20th June 2000.

According to the Incentive Plan, a staff member can be sold a block of shares with deferred cash settlement. BES Investimento's Executive Committee and professionals in active service are eligible to receive shares under the Plan. BES Investimento's Executive Committee decides which professionals will be granted shares and their allotment, subject to a maximum limit set by BES' Board of Directors. The Bank's Executive Committee's remuneration policy is based on responsibility held and targets met. In relation to the Bank's Executive Committee, the parent company Board of Directors decides.

The unit share price is calculated based on the closing price of the shares on Euronext Lisbon on the day previous to the shares being granted plus dividends attributable less charges.

In 2005, 287,703 shares were granted under the Incentive Plan of which 264,802 to BES Investimento professionals and 22,901 to professionals at subsidiaries. In aggregate, since the inception of the Incentive Plan in 2000, and excluding shares sold in the meantime, 1,028,601 shares have been granted, amounting to 0.34% of BES' share capital.

3.4.
Transactions and Dealings with Members of the Supervisory Board and Board of Directors, Qualified Stakeholders and with Parent or Group Companies

Any transactions or dealings undertaken by BES Investimento are conducted under normal market conditions and at arm's-length and are part of the Bank's day-to-day operation.

3.5.
External Auditor's Remuneration

In 2005, BES Investimento paid its external and independent CMVM registered auditor, "Amável Calhau, Ribeiro da Cunha & Associados, S.R.O.C.", 57,557 euros for audit and statutory audit services. No other services were required or paid for.

In 2005, BES Investimento and its subsidiaries paid KPMG, BES Group's external international auditors, as follows:

Value in euros (payments made in other currencies were converted at the exchange rate applicable on 31-12-2005)	Portugal		International	Total	
	BES Investimento	Subsidiaries	Subsidiaries	value	%
a) Audit services / Statutory Audit	92,500	38,300	147,500	278,300	59.5%
b) Fairness opinions	-	16,000	23,500	39,500	8.4%
c) Tax consultancy	29,566	2,379	18,293	50,238	10.7%
d) Other non-audit services	100,000	-	-	100,000	21.4%
Total	**222,066**	**56,679**	**189,293**	**468,038**	**100.0%**

Note: BES Investimento includes the London Branch
Subsidiaries in Portugal include Espírito Santo Capital (ES Private Equity) acquired on 30th December 2005

The services rendered under line items c) and d) above (non-audit services), whether performed by the external auditors or members of the same professional network, were conducted in compliance with procedures set up to safeguard the professional independence of the external auditors, namely:

I) At BES Group level

The BES Group Audit Committee, referred to in chapter 6.4, has defined which non-audit services are strictly prohibited, given these could affect the professional independence of the External Auditors in relation to the BES Group.

The BES Board of Directors issued mid 2003 a ruling on procedures to ensure compliance with the US Sarbanes-Oxley Act of 2002 and the SEC Final Rule on "Strengthening the Commission's Requirements Regarding Auditor Independence". All BES Group companies are bound by the ruling.

All non-audit services are subject to approval by the BES Group Audit Committee to ensure independence of the External Auditor.

Non-audit services for which the fees amount to less than 100,000 euros are not subject to approval, for practical purposes. However, for procedural compliance reasons the Audit Committee must be informed of these services, on a quarterly basis, in addition to any services which exceed the amount and need to be reviewed and approved by the Committee.

II) At BES Group External Auditor level

The BES Group External Auditor has prepared procedural guidelines, which must be complied with, for all services rendered to BES Group.

For the international branches, an additional intra-net system (called Sentinel) was set up by the External Auditor to ensure that no service is rendered to a quoted company, as is the case with BES, without the previous approval of the Global Lead Partner in charge of that client. This procedure ensures that any partner of the firm of auditors must first request permission from the Global Lead Partner to provide services. The partner must submit an explanation as to how these services would not affect the auditor firm's independence and that he or she would be acting in compliance with applicable rules on professional risk management.

The Global Lead Partner is responsible for all services proposed to BES Group and verifying that these do not infringe on non-audit services approval procedures, and if they do, to ensure that independence guidelines are adhered to by consulting with his or her Risk Management Partner.

These procedures are checked within the Quality Control exercise undertaken annually by BES' External Auditors.

3.6.
Use of New Technology for Disclosure of Corporate Information

The use of electronic means of distributing financial information to BES Investimento's clients has become increasingly important.

BES Investimento has therefore created a website (www.esinvestment.com), with varied institutional information, a corporate presentation and information on its various business units and territories.

3.7.
Investor Relations

There is no investor relations department. The relationship with the parent and sole shareholder is maintained at Board level.

The Corporate Communications and Image department and its Director, Pedro Pereira Santos, prepare the necessary information for analysts and the media and are available to answer questions. This department prepares press releases on annual and six months results and on any other fact of interest to the financial community.

The relationship of BES Investimento with investors (the Bank only carries debt, under the form of bonds, which are admitted to trading in a regulated market) and the supervising authorities is under the responsibility of the representative for market relationships, Nuno Pignatelli Pereira, Chief Compliance Officer.

Any investor can contact the Bank by mail, telephone or electronically, at the following addresses:

Compliance (Attn: Nuno Pereira)
Rua Alexandre Herculano, 38
1269-161 Lisboa
Tel. / Fax: (351) 21 319 69 00 / (351) 21 330 95 00
E-mail: compliance@besinv.pt

4.
The Exercise of Voting Rights and Representation Rights

BES Investimento has one shareholder: Banco Espírito Santo, S.A.

Therefore, there are no shareholder representation issues, which may affect the exercise of the sole shareholder's voting rights, as there are no shareholder agreements or any statutory clauses, which affect the voting or transfer rights of the Bank's shares.

The general meetings of BES Investimento have been held under the form of a universal shareholders' meeting (without "prior formalities") ("Universal Shareholders' Meeting"). The sole shareholder presents a letter of representation signed by its legal representatives indicating the person or persons that will represent it in the meeting and further referring that the meeting may be held and proceed to vote on a universal basis.

At the 30th March AGM, the following AGM's board was elected for the four-year term (2005-2008):

Chairman:	Jorge Luís Soromenho Gomes de Abreu
Secretaries:	Maria Salgado Poppe Almeida Carvalho
	Filipe de Castro Torres Hasse Ferreira

5.
Corporate Rules

5.1.
Code of Conduct and Other Internal Regulations

The Code of Conduct (the "Code") applies to all BES Investimento staff (Board Directors, executive management, professionals, service providers, proxies and other staff) and was issued in September 2002 and updated on 3rd January 2005, on occasion of the ES Dealer merger.

The Code adopted since 2002, follows the BES Code of Conduct, as is the case with all BES Group credit institutions and financial services companies.

The Code of Conduct, which has been registered with the CMVM under the terms of article 316, clause 2 of the Securities Market Code, includes the following main provisions:

- All professionals must behave ethically; treat all clients equally; maintain a professional, serious, competent, diligent, loyal, neutral and true posture; act in good faith; ensure clients' interests prevail over its or the Bank's own; comply with regulation and internal controls; and have a duty to defend the efficiency and transparency of the market;
- Regulatory procedure on conflicts of interest;
- Regulatory procedure on any personal trading performed by Bank professionals, with the aim of avoiding insider trading;
- Regulatory procedure for professionals who undertake economic analysis;
- Establish guidelines on money-laundering prevention;
- Regulatory procedure on customer complaints;
- Any breach of the Code of conduct by a professional will result in disciplinary action; if committed by a service provider will lead to the contract being terminated; or lead to suspension of service if committed by a Director or a member of the Supervisory Committee.

BES Investimento's Chief Compliance Officer is responsible for the adherence to the Code of Conduct and all interpretations of the Code.

The operations of the Bank must be orderly and standardised, in accordance with the objectives set by the Executive Committee, and are subject to internal controls and procedures. Working methods and procedures are well defined; must be known to all staff; and are set out in written documents, as is the case with the Code of Conduct, which can be downloaded via Intranet at every workstation.

These documents include:

- The Procedures Manual and Risk Management Manual, which are the regulatory manuals for products sold by the Bank and related support activities;
- Executive Committee Rulings, which are issued by the Executive Committee with the aim of defining the basic operating rules of the Bank, and
- Internal Communications, which are confidential and issued by several business units on specific transactions or situations of interest to other business units.

5.2.
Rules on Conflict of Interest

There are several legal guidelines on the prevention of conflicts on interest, which the Code of Conduct seeks to reflect.

Regulations affecting BES Investimento as a Credit Institution (a Bank)

The Board and Executive Directors, professionals, service providers, proxies and other staff cannot act on transactions in which they have an interest; their spouses or immediate relatives have an interest; or for companies or entities in which they, their spouses or immediate relatives have a controlling, direct or indirect, interest.

Banks cannot extend loans under any form, which includes guarantees, either directly or indirectly, to members of the Board or the Supervisory Board or to companies or entities in which they have a controlling, direct or indirect, interest. Banks cannot acquire shares in companies or entities, directly or indirectly, owned by members of the Board or the Supervisory Board.

These restrictions do not apply to transactions arising from staff remuneration policies or benefits (such as mortgages, etc.), nor to non-Executive Directors of credit institutions or companies or entities in which these have a controlling interest.

Members of the Board or the Supervisory Board of a bank cannot act on the assessment or granting of loans to companies or entities which they manage or in which they are qualified stakeholders.

Should the Bank wish to make a loan to a member of the Board or the Supervisory Board, it must be approved by a two-thirds majority of the other members of the Board and appear reasonable to the Supervisory Board.

Regulations affecting BES Investimento as a *sociedade anónima*

No contract between a company and a Director of that company, whether entered into directly or via a third party, is valid without prior consent from the Board of Directors, where the Director in question cannot vote, and must appear reasonable to the Supervisory Board.

These rules extend to contracts or dealings with parent or group companies where the Director is contracting the service.

In the Annual Report, the Board of Directors must describe any authorisation given of this nature and the Supervisory Board Report must include its opinion on the authorisation.

These rules do not apply if normal business rules apply and the contracting Director is receiving no special benefits. In this situation the contract between the company and the Director can be entered into freely.

Director cannot undertake any temporary or permanent work, for either the company or parent or group companies, not specified in their contract, either on their own behalf or for third parties, while Directors of the company, nor enter into any service contract with the company, which includes any of these services, when they cease to be Directors.

The Directors of the Company, without AGM approval cannot undertake services which compete with the Company either for their own account or for third parties.

The Board Directors and the Supervisory Board members must communicate the number of shares and bonds they hold in the company, and any acquisitions, disposals or changes in ownership in shares or bonds in the company, the parent or group companies. This also applies to shares and bonds held by a spouse, except if legally divorced, children under 18, any person holding shares or bonds on their behalf or any company which has a commercial relationship with the Board or the Supervisory Board member.

BES Investimento's Basic Rules Code of Conduct

Client's interests must be placed above those of the Bank, parent or group companies and those of any employee governed by the Code of Conduct including Board Directors, members of the Supervisory Board, professionals, service providers or any other person(s) (who provide(s) services on an permanent basis).

In the case of a dispute, BES Investimento Clients will be assured of true and fair treatment.

The Bank's professionals will try and avoid any conflict of interest between clients and act impartially and transparently to ensure all clients are given equal treatment.

All professionals must comply with the following rules of conduct:

a) Any conflict of interest the professional becomes aware of must be communicated to an immediate superior, the Executive Committee or to the Compliance Officer;
b) Company assets or business opportunities must not be used inappropriately;
c) No gifts must be accepted from third parties if the acceptance of these gifts affects the professional's impartiality or loyalty to the Bank.

Should a conflict of interest situation occur arising from an action by or asset belonging to a professional which could affect the Bank's, the market or the Bank's clients' interests, the professional must inform an immediate superior, who will take action to resolve the conflict.

Research analysts are prohibited from: (i) trading in companies covered either directly or through an intermediary; and (ii) holding shares or other financial interests in these companies.

5.3.
Disclosure Controls and Procedures

The internal controls procedure stipulates that a professional must inform the Executive Committee or Compliance if any legal, regulatory or Code of Conduct rule is broken, especially if there is a violation of the Securities Market Code which could lead to the Bank suffering legal consequences.

Professionals who report irregular behaviour will not be subject to disciplinary action and their report will be kept confidential, if so requested. Anonymous communications or reports without specific reference to an incident will not be accepted.

These communications will be dealt with, according to their nature, either by the Compliance department, the Audit department or BES' Audit Committee.

All communications are stored as confidential. Those which are considered untrue or whose investigation does not result in any legal or disciplinary action will be destroyed.

5.4.
Internal Risk Control Procedures

BES Investimento has had for many years a unit dedicated to controlling the risk arising from its activity. The Bank's internal risk control system was developed in line with the CMVM Recommendations, and is designed to monitor the risks associated with the business efficiently in order to safeguard the Bank's assets and ensure transparency of its corporate governance. It is subject to specific review and supervision by the banking supervision authority, the Bank of Portugal. The Board Directors prepare a report, annually, on Internal Controls, in accordance with ruling no. 72/96 issued by the Bank of Portugal and updated in rulings nos. 4/98, 12/99, 29/2000, 17/2001, 7/2002, 14/2003 and 20/2005. The operation of the systems and the team are described in more detail in the Annual Report under "Integrated Risk Management".

The Executive Committee is responsible for controlling and monitoring risk. The Credit Risk Committee, as instructed by the Executive Committee, is responsible for reviewing the procedures used to and to control operating, credit, market, legal and corporate image risks and the ALCO for balance sheet and liquidity risks.

i) The Credit Risk Committee ("CRC")

This Committee must approve any transaction, which may create risk at a global level, whether to assets, off-balance sheet or to image. These include loans, guarantees, securities underwriting, currency operations, counterpart credit lines, acquisitions for investment portfolio and other.

The CRC is responsible for:

a) Reviewing and approving of risk taking strategies to ensure compliance with the Executive Committee's risk profile criteria, taking into account prevailing legal and regulatory requirements and best market practice;
b) Reviewing and approving proposed transactions and setting individual and aggregate limits, which will depend on the business and product area;
c) Monitoring the Bank's risk profile;
d) Monitoring large exposures, levels of concentrations, portfolio quality and exposure versus approved limits;
e) Granting execution capability to the various businesses units within approved risk profiles, namely ratings, amounts, terms, etc.

The Committee is composed of:

- Permanent members: all members of the Bank's Executive Committee and any divisional or department head the Executive Committee may wish to elect through an Executive Committee Ruling.

  Mr. Francisco Cary is the Chairman, and also a member of the Executive Committee, and if absent, Mr. Tiago Cyrne de Castro, Head of Risk Management will assume the role.

- Advisory members: the Senior Banker(s) presenting the transaction, accompanied by the Head of the Product Team, the Risk Analyst(s) involved in the transaction, the Head of Treasury (Fixed Income Division) and a professional member of the legal team.

  The Head of Risk Management or in his or her absence the Director reporting to him or her, must be present.

Approval requires a two-thirds majority of the permanent members with at least four members in favour where one must be a Board Director and another a representative of the Risk Management division.

If the transaction is not approved, the Director may re-submit at the following CRC meeting or send the proposal to the Executive Committee for review.

This Committee meets twice a week or whenever there is a need. All documentation presented is archived and kept in digital format.

ii) Assets and Liabilities Committee ("ALCO")

The ALCO's function is to:

- Define balance sheet structure and usage;
- Measure assets and liabilities against interest, exchange and liquidity risks; and propose measures for balance sheet management by monitoring the Maximum Cumulative Outflow (MCO) limits, long-term asset-cover ratios and contingency plans.
- Analyse Shareholders' Funds; namely by managing the subordinated and liquidity ratios calculated in accordance with ruling no. 1/2000 issued by the Bank of Portugal.

Mr. Francisco Cary is the Chairman of ALCO. All other members of the Executive Committee are also members of ALCO as are the Heads of Treasury and Risk Management and all divisions whose business involves balance sheet assets or risk such as Fixed Income, Capital Markets Origination and Client Relationship.

The ALCO meets at least once a quarter or whenever needed and generally ALCO meetings take place during Executive Committee meetings.

Mr. Francisco Cary also represents BES Investimento at the parent's ALCO. The BES Group ALCO meets once a month and its Chairman is Mr. Ricardo Espírito Santo Silva Salgado, Chairman of BES Investimento's Board of Directors and BES CEO. All BES Executive Committee members are members of ALCO, including Mr. José Maria Espírito Santo Silva Ricciardi, Vice-Chairman of the Board of Directors and BES Investimento's CEO.

To control risk associated with compliance, the Executive Committee created, in 2002, a Compliance department.

iii) Compliance

As described previously (in chapter 2.1), this department ensures compliance by the Bank and its professionals with, statutory and regulatory, laws and requirements ethics and appropriate code of conduct in addition to proving support on any interpretation or implementation of the compliance procedures.

Its main functions are:

- To analyse and evaluate the impact of existing and new procedures and recommendations issued by the various domestic and international regulatory and supervisory bodies;
- To ensure procedural compliance in each area the Bank is authorised to operate in;
- Responsibility for compliance with the Code of Conduct and assessment of possible conflicts of interest;
- To review the procedural implications for the Bank in terms of Anti Money Laundering and Know Your Customer (KYC).

The department meets the legal and regulatory requirements in all jurisdictions in which the Bank operates, either directly or through a subsidiary. Separate compliance units were set up in Spain (ESI Spain), in Brazil (BES Investimento Brazil and BES Securities do Brasil) and in the UK (London branch), with their own staff and structure and with responsibility for ensuring compliance with local legal and regulatory requirements. All units report to BES Investimento's Compliance department.

In all dealings in the area of compliance affecting BES Group BES Investimento's compliance department works closely with BES Group's Compliance department and Audit Committee (described in chapter 6.4).

In addition, there are several BES Group departments responsible for internal audits and risk management:

iv) Global Risk Management Committee

The BES Group Global Risk Management Committee is responsible for all risk and related matters in all group companies and for monitoring risk in each client division and product area. Its functions include: (i) presenting procedures and policies to BES' Executive Committee for approval and monitoring and provision of decision-making tools for the management of credit, market and operating risk; (ii) co-ordinating the Global Risk Department relationship with each division; and (iii) supervising specific projects on risk management, such as the implementation of the Basel II Project guidelines.

This committee meets as a rule once a month and comprises BES Executive Directors and BES Investimento Directors, namely Mr. José Maria Espírito Santo Silva Ricciardi, Vice-Chairman of the Board of Directors and BES Investimento CEO and Mr. Tiago Cyrne de Castro, Executive Director in charge of Risk Management.

v) Audit department

This BES department is active in all BES Group companies, including BES Investimento and its subsidiaries.
The Audit department assesses and contributes to the improvement of risk management systems, internal controls and governance to ensure standardised coverage of internal controls' procedures in order to reduce overall risk.

Its functions include: assessing and supervising compliance with internal controls; reviewing the operation of each business unit to ensure a standard and consistent approach is used throughout the group and is in line with the Board's recommendations. The Audit department reports on measures to resolve operating and functional constraints identified by applying rigorous testing and implementation of operating efficiency tools. In addition the Audit department reviews, on a regular basis, the checks in place to protect assets and documents entrusted to the BES Group for safekeeping.

6.
Governing Bodies

In accordance with the CMVM Recommendations the Board should:

1. Have sufficient members to provide effective guidance to the management of the company; and
2. Include a sufficient number of non-executive directors in order to provide objective judgement to and assess the performance of executive members and support corporate interests. A number of these non-executive directors should be independent with no direct interest in the company, in order to prevent conflicts of interest.

The composition of the Board of Directors of BES Investimento is in line with the CMVM Recommendations. The Board exercises effective control over the day-to-day management of the Bank, reserving the sole right to make decisions on important matters, notwithstanding the existence of an Executive Committee responsible for the daily management of the Bank as delegated. The Board also includes non-executive directors who are not directly involved in the Bank's activities.

6.1.
The Board of Directors

The Board of Directors reviews and approves all strategic decisions taken by the Bank, meeting four times a year (article 13, clause 1 of the Articles of Association).

To proceed to a vote, a majority of the Directors must be present. Voting majority is considered as the numerical majority of the members or members' representatives present. In the event of a tied vote, the Chairman or his replacement has a casting vote (article 13, clauses 3 and 4 of the Articles of Association). Minutes are taken at all meetings.

The Board of Directors, in accordance with article 14, can delegate everyday management to the Executive Committee, composed by an uneven number of Board Directors.

The Articles of Association (article 11, clause 1) state that the Board should have between 5 (five) and 21 (twenty-one) directors.

The CMVM requires the Bank to declare which directors are executive, non-executive and independent.

Hence, for the purpose of the referred regulations, all Board members connected to specific interests of the Company shall not be considered as independent members.

This applies, directly, to any board member who:

a) Is, at the same time, an executive member of a company exercising control over BES Investimento;
b) Is a shareholder of, a board member of, have a contractual agreement with, or act on behalf of qualified shareholders holding 10% or more of BES Investimento's share capital or voting rights, or holding 10% or more of a company with effective control over BES Investimento;
c) Is a shareholder of, a board member of, have a contractual agreement with, or act on behalf of qualified shareholders holding 10% or more of the share capital or voting rights of a competing company;
d) Receives any remuneration from BES Investimento or other parent or group companies other than remuneration for its services as non-executive director;

e) Has a significant commercial relationship with BES Investimento or any parent or group company, either directly or through a third party. A significant commercial relationship is understood to include provision of services; being an important Client or a company or organisation which receives significant contributions from BES Investimento or its parent; and

f) Is married or a relative by up to third degree remote to any of the people mentioned above.

In addition to checking the conditions above mentioned are complied with, the Board must ensure the independence of its members, and as such, the Bank issues a questionnaire every year to its non-executive members to verify the independence of its Directors.

As at 31st December 2005, 3 (three) out of 10 (ten) of the Board's non-executive members were independent, regardless of the fact that their appointment or re-election depends on the Bank's single shareholder.

BES Investimento's current Board of Directors was elected on 30th March 2005 for a four-year term (2005-2008) at the Universal Shareholders' Meeting.

We include below a description of the Board Directors, including functions, date of first appointment and whether they are considered independent as defined by prevailing regulation.

Director	Date of Birth	Nationality	Date of Appointment	Term of mandate	Member of Executive Committee	Independent Director	Reason
Chairman							
Ricardo Espírito Santo Silva Salgado	25/Jun./1944	Portuguese	31/Mar./1995	2008	No	No	Vice-chairman of BES Board and BES CEO
José Maria Espírito Santo Silva Ricciardi	27/Oct./1954	Portuguese	27/Jul./1992	2008	Yes	No	BES Investimento CEO as of 25th July 2003
Vice-Chairman							
Francisco Ravara Cary	29/Aug./1965	Portuguese	20/Feb./1998	2008	Yes	No	Executive
Vice-Chairman							
Rafael Caldeira de Castel-Branco Valverde	15/Apr./1953	Portuguese	18/Dec./1990	2008	Yes	No	Executive
António Espírito Santo Silva Salgado	15/Dec./1947	Portuguese	15/Dec./1989	2008	No	No	Relative of BES Board Director(s) (line f) clause 2, article 1 of CMVM Regulation no. 7/2001)
Bernard Marcel Fernand Basecqz	15/Oct./1945	Belgian	15/Dec./1989	2008	No	Yes	
Duarte José Borges Coutinho	20/Mar./1924	Portuguese	15/Dec./1989	2008	No	No	Relative of BES Board Director(s) (line f) clause 2, article 1 of CMVM Regulation no. 7/2001)
Manuel de Magalhães Villas-Boas	29/May./1945	Portuguese	29/Jul./1992	2008	No	No	Board Director of BES and of Espírito Santo Financial Group, S.A.
Christian Georges Jacques Minzolini	7/Aug./1956	French	9/Jun./1994	2008	Yes	No	Executive
Bernardo Ernesto Simões Moniz da Maia	26/Jul./1961	Portuguese	30/Jul./1997	2008	No	Yes	
José Manuel Pinheiro Espírito Santo Silva	2/May./1945	Portuguese	28/Mar./2000	2008	No	No	Board Director and on Executive Committee of BES
Mário da Silva Teixeira Júnior	4/Mar./1946	Brazilian	26/Mar./2002	2008	No	Yes	

(cont.)

Director	Date of Birth	Nationality	Date of Appointment	Term of mandate	Member of Executive Committee	Independent Director	Reason
Pedro Manuel de Castro Simões Ferreira Neto	2/Sep./1965	Portuguese	6/Dec./2002	2008	Yes	No	Executive
Ricardo Abecassis Espírito Santo Silva	4/Nov./1958	Portuguese	25/Jul./2003	2008	Yes	No	Executive
Diogo Luís Ramos de Abreu	20/Dec./1965	Portuguese	25/Sep./2003	2008	Yes	No	Executive
Tiago Vaz Pinto Cyrne de Castro	5/Aug./1961	Portuguese	25/Sep./2003	2008	Yes	No	Executive
João Filipe Espírito Santo de Brito e Cunha	28/Feb./1965	Portuguese	27/Dec./2004	2008	No	No	Relative of BES Board Director(s) (line f) clause 2, article 1 of CMVM Regulation no. 7/2001)
Luís Miguel Pina Alves Luna Vaz	12/Sep./1969	Portuguese	30/Mar./2005	2008	Yes	No	Executive
Paulo José Lameiras Martins	27/Nov./1965	Portuguese	30/Mar./2005	2008	Yes	No	Executivo
Amílcar Carlos Ferreira de Morais Pires	30/May./1961	Portuguese	22/Nov./2005*	2008	No	No	Board Director and on Executive Committee of BES
Félix Aguirre Cabanyes	9/Apr./1959	Spanish	22/Nov/2005*	2008	Yes	No	Executive

* - Registration with Bank of Portugal dated as of 26th January, 2006.

Therefore, according to clause 2, articles 1 of CMVM Regulation no. 7/2001, as amended by Regulation no. 10/2005, the following directors are independent:

- Bernard Marcel Fernand Basecqz
- Bernardo Ernesto Simões Moniz da Maia
- Mário da Silva Teixeira Júnior

The table below summarises the Directors' education and last five years professional experience:

Director	Education	Last five years professional experience
Ricardo Espírito Santo Silva Salgado	Economics graduate, Economics and Finance Faculty, Lisbon University (Universidade Técnica)	BES Board Vice-Chairman and CEO, Chairman of the Boards of BES Investimento, Partran, SGPS, S.A., Espírito Santo Financial Group, S.A. and Bespar - SGPS, S.A.. Executive Committee member of the International Banking Institute, since 2003, and Chairman of the same since October 2005. Member of Euronext NV Supervisory Board since 2002 and Director of Banco Bradesco, S.A. (Brazil) since 2003.
José Maria Espírito Santo Silva Ricciardi	Graduated in "Sciences Economiques Appliquées", Administration and Management Scholl of the Economics, Politics and Sociology Faculty of the Catholic University of Louvain, Belgium	BES Board Director and a member of BES Executive Committee, Executive Vice-Chairman of BES Investimento and CEO since 25th July 2003. Chairman of BES Investimento Brazil and ESI (Spain), Vice-Chairman of ESAF – Espírito Santo Activos Financeiros, SGPS, S.A. and Director of BESPAR – SGPS, S.A. Espírito Santo Financial Group, S.A. and ES Private Equity.
Francisco Ravara Cary	Economics and Management graduate, Portuguese Catholic University. MBA from Insead (Fontainbleau, France)	Since March 2005, Vice-Chairman of BES Investimento and previously Director in charge of Brazil. Between 1998 and 2000 was Executive Director of Banco Boavista InterAtlântico, S.A. (Brazil), in charge of large companies and investment banking. From July 2000 to May 2002, Managing Director of BES Investimento Brazil. He is Chairman of ES Private Equity, Board Director of BES Investimento Brazil and ESI (Spain) and, since 2001, of Bradespar, S.A. (Brazil).
Rafael Caldeira de Castel-Branco Valverde	Economics graduate, Economics Faculty, Lisbon University (Universidade Técnica)	BES Investimento Director and Vice-Chairman since March 2005. Board Director of BES Investimento Brazil.
Christian Georges Jacques Minzolini	Management graduate, ESCP, Paris. Stanford Executive Program, Stanford Business School, US	BES Investimento Board Executive Director and Delegate Director of ESI (Spain). General Manager of the Spanish branch since September 2005.

(Cont)

Director	Education	Last five years professional experience
Diogo Luís Ramos de Abreu	Economics and Management graduate, Portuguese Catholic University	Until April 2001, BES Investimento Board Director and Head of Capital Markets and Private Equity. Between May 2001 and April 2003 was in a US company. Since April 2003, Executive Director of ESAF - Espírito Santo Activos Financeiros, SGPS, S.A., and in September 2003 was made BES Investimento Board Executive Director.
Félix Aguirre Cabanyes	Economics and Management graduate, Madrid University, having specialised in Public Finance. MBA from IESE Business School, Barcelona	Until 2001, was Head of Corporate Banking for Citibank in Spain. From 2001 to 2005, Managing Director of Citibank International plc, Spanish branch. From November 2005, Director of BES Investimento and on the Executive Committee from December. On ESI (Spain) Executive Committee.
Luís Miguel Pina Alves Luna Vaz	Economics and Management graduate, Portuguese Catholic University	Made Executive Director of BES Investimento in March 2005. From 2000 director of Capital Markets and Secondary Markets - Equity and a member of the Executive Committee.
Paulo José Lameiras Martins	Industrial Engineering graduate, Science and Technology faculty, Lisbon New University. Post-graduate in Management from Economics and Management Faculty, Lisbon	Made Executive Director of BES Investimento in March 2005. Previously director of Iberian M&A.
Pedro Manuel de Castro Simões Ferreira Neto	Management graduate, Portuguese Catholic University	Made Executive Director of BES Investimento in December 2002, having been Head of Project Finance, since 2000. Chairman of Espírito Santo Concessões, SGPS, S.A., Executive Director of ESCOM – Espírito Santo Commerce, S.A. and non-executive Director of Banco Espírito Santo de Angola, S.A.
Ricardo Abecassis Espírito Santo Silva	Economics graduate, City University, London	From 2000, on BES Investimento Brazil Board and its Managing Director from 2002. Director of BES and BES Investimento Boards since 2002 and 2003 respectively. Made Executive Director of BES Investimento in December 2005.

(Cont)

Director	Education	Last five years professional experience
Tiago Vaz Pinto Cyrne de Castro	Management graduate, Languages and Administration Faculty, Lisbon	Made Director of BES Investimento in September 2003, having been on the Executive Committee and Head of Strategic Planning, Risk Management, Special Operations and other support areas. Managing Director of ES Investment Ireland and Director of ES Private Equity.
Amílcar Carlos Ferreira de Morais Pires	Economics graduate, Portuguese Catholic University	Until 2004, advisor to the BES Board and co-ordinator of Financial Markets and Market Studies division. Made Executive Director of BES in 2004 and Director of BES Investimento in November 2005.
António Espírito Santo Silva Salgado	Graduated from Hotel & Tourism College, Switzerland, having specialised in company management.	BES Investimento Director and Executive Chairman of Controlled Sport (Portugal) – Turismo, Cinegética e Agricultura, S.A. Since 2001, Executive Chairman of Monfortur – Monfortinho Turismo, S.A., of Empresa Hotel Astória de Monfortinho, S.A. and of Empresa das Águas do Vimeiro, S.A.. Board Director of Companhia das Águas da Fonte Santa de Monfortinho, S.A..
Bernard Marcel Fernand Basecqz	Law doctorate from Louvain University and Finance MBA from Michigan State University	Director of BES Investimento Board. Until 2003, Board Director of Kredietbank Luxembourg and Delegated Director of Banque Continentale du Luxembourg. Since 2003, CEO and Managing Director of Kredietbank (Suisse), S.A.. In 2005, made director of Fondation pour la Recherche en Ophtalmologie (Lausanne, Switzerland).
Bernardo Ernesto Simões Moniz da Maia	High school graduate, Lisbon	Director of BES Investimento Board. Executive Vice-chairman of Mague - Gestão e Participações, SGPS, S. A.. Executive Director of Sogema, SGPS, S. A. and Euro-YSER, Produtos Quimicos, S. A.
Duarte José Borges Coutinho Espírito Santo Silva	Economics graduate, Finance and Economics Faculty, Lisbon	Director of BES Investimento Board
João Filipe Espírito Santo de Brito e Cunha	Law graduate, Lusiada University, Lisbon and PDG from Navarra University – IESE Business School	Director of BES Investimento Board since December 2004. Director of Banco Espírito Santo de Angola, S.A.. Until 2004, Director of Banco Espírito Santo, S.A. (Spain).
José Manuel Pinheiro Espírito Santo Silva	Economics and Management graduate, Évora University	Director of BES Investimento Board since March 2000. BES Executive Director, Chairman of Compagnie Bancaire Espírito Santo, S.A. (Switzerland) and of Banco Espírito Santo, S.A. (Spain).

(Cont)

Director	Education	Last five years professional experience
Manuel de Magalhães Villas-Boas	Economics graduate, Finance and Economics Faculty, Lisbon	Senior Vice President of Espírito Santo International and Director of Espírito Santo Financial Group, S.A. Member of BES and BES Investimento Boards.
Mário da Silveira Teixeira Júnior	Civil Engineering and Management Graduate, Mackenzie University, São Paulo, Brazil	Member of BES Investimento Board.Non-executive Vice-Chairman of BES Investimento Brazil, since February 2001. Director of Banco Bradesco, S.A. (Brazil) where he is on the Audit, Internal Controls and Compliance Committees. Has performed various roles at the Bradesco Group.

The annex to this report contains the positions held by the members of the Board of Directors in other companies, including BES Group companies, subsidiaries and associates.

The Board of Directors does not have an "a priori" list of conflicts of interest or any restrictions on the number of positions held in other companies by its Directors. The Executive Committee has the right to decide on the positions held by its Directors in other companies. The number of posts held by any one director is subject to the Credit Institutions and Financial Services Companies Act, as approved by law (Decreto-Lei nº 298/92) and issued on 31st December, whereby the Bank of Portugal can veto the appointment of a director if it believes, or (i) the appointment could lead to a conflict of interests (ii) the director is not eligible for the role. The Bank of Portugal cannot veto appointments within the BES group of companies.

Election of the Board of Directors and the Executive Committee

The Board was elected on 30th March 2005 at a Universal Shareholders' Meeting, as mentioned above, for a four-year term (2005-2008).

Two new directors were appointed: Mr. Luís Miguel Pina Alves Luna Vaz and Mr Paulo José Lameiras Martins.

The Board met on 31st March 2005 and nominated Mr. Francisco Ravara Cary and Mr. Rafael Caldeira de Castel-Branco Valverde as Vice-Chairmen, replacing Mr. Manuel António Gomes de Almeida Pinho and Mr Manuel António Ribeiro Serzedelo de Almeida[1] , who resigned on 10th and 16th March 2005 respectively.

The Board approved the formation of the Executive Committee, reappointing all of the Board's Executive Directors including Mr. José Maria Ricciardi as Chairman, and nominating the new Directors Mr. Luís Luna Vaz and Mr. Paulo Martins as members.

On 22nd November 2005, Mr. Amílcar Carlos Ferreira de Morais Pires, BES Executive Director, and Mr. Félix Aguirre Cabanyes were elected as Directors at the Universal Shareholders' Meeting [2].

On 19th December, the Board increased the members of the Executive Committee from 9 to 11 to include Mr. Félix Aguirre Cabanyes and Mr. Ricardo Abecassis Espírito Santo Silva, who had been a Director of the Board from 25th July 2003.

1 - Mr. Manuel Serzedelo de Almeida, was not acting as director since 24th January 2003 after having sumitted a request for temporary suspension to the Chairman of the Supervisory Board
2 - Mr. Amilcar Morais Pires and Mr. Félix Aguirre Cabanyes were elected Board Directors at the 22nd November 2005 AGM and their appointments were registered with Bank of Portugal as of 26th January, 2006.

6.2.
The Executive and Other Committees

In accordance with article 14, clause 2 of the Articles of Association, the Board approved the formation of an Executive Committee with an uneven number of directors, and delegated to the Committee the daily management of the Bank's operations and preparation of documentation on strategic decisions for Board approval.

On 31st March 2005, the Board decided to "delegate to the Executive Committee, without restrictions within legal limits, all necessary and sufficient powers required to manage the Bank and its operations, namely those necessary and sufficient to undertake business activities which form part of the operating activities of credit institutions and financial services companies."

In accordance with the Company Code, article 407, clause 4, the Board must set applicable limits to the delegation of power, as defined by sections a) to d), f), l) and m) of article 406 of the above-mentioned code.

In compliance with the Board and regulatory requirements, the Executive Committee cannot:

a) Chose the Chairman of the Board of Directors;
b) Appoint Directors;
c) Request general shareholder meetings;
d) Approve annual reports and accounts;
e) Provide guarantee, personnal guarantee or security on behalf of the company, with exception of those granted in the normal course of its business;
g) Change the registered office or amount of issued capital, in accordance with the Articles of Association; or
h) Agree to mergers or demergers, or changes in the company's status.

The Executive Committee, as a general rule, meets every week and the meetings follow an agenda, distributed in advance, with the main points for discussion.

Approval requires the numerical majority of the members attending and meeting minutes are prepared.

As at 31st December 2005, the Executive Committee had 11 (eleven) members, with the following roles:

Chairman

José Maria Espírito Santo Silva Ricciardi – also Chairman of the Investment Banking, Capital Markets and Investment Committees, which are described later. Operating areas: Strategic Planning, Compliance, HR and Administrative.

Members

Francisco Ravara Cary – Chairman of the Credit Risk Committee and ALCO; Head of the Secondary Market – Equity and Fixed Income Divisions and of the legal department; and is Chairman of ES Private Equity.

Rafael Caldeira de Castel-Branco Valverde – Client Relationship, Financial Services, Leverage Finance, Capital Markets Origination, Espírito Santo Financial Advisory and the Information department.

Christian Georges Jacques Minzolini – Head of Equity Derivatives and Arbitrage; Executive Chairman of ESI (Spain) and General Manager of the Spanish Branch.

Diogo Luís Ramos de Abreu – Special Projects.

Felix Aguirre Cabanyes [1] – Spanish Branch.

Luís Miguel Pina Alves Luna Vaz – Capital Markets Origination and Secondary Market – Equity.

Paulo José Lameiras Martins – Financial Services.

Pedro Manuel de Castro Simões Ferreira Neto – Head of Project Finance and Securitisation and International Divisions, the London Branch and the Luanda office.

Ricardo Abecassis Espírito Santo Silva – Head of BES Investimento Brazil and BES Securities do Brasil, S.A. – Corretora de Câmbios e Valores Mobiliários.

Tiago Vaz Pinto Cyrne de Castro – Head of Risk Management, Accounting, Information and Management Reporting Systems, Operations, Corporate Communications and Image departments and supervises ES Investment Ireland.

Other Committees include:

Functional Area Committees

In addition to the CRC and ALCO, described in chapter 4.3 (internal controls and procedures), the following committees exist:

i) Capital Markets Committee ("CMC")

This Committee advises the Executive Committee on its Capital Markets business plan, its competitive positioning on fixed income and equity markets, and risk control management of its balance sheet. The CMC must (a) identify market opportunities; (b) propose a business approach; and (c) co-ordinate operations within its sphere of influence with other BES Group companies.

In addition to the Executive Committee members, the CMC comprises heads of divisions with capital markets exposure (such as Fixed Income, Capital Markets Origination, Secondary Market – Equity and Equity Derivatives and Arbitrage); Client Origination Portugal, Risk Management - Risk Control, and any other professional designated by the Executive Committee.

The CMC meets monthly, presided by Mr. José Maria Ricciardi, the CEO, and minutes are prepared by the Executive Committee secretary and distributed to all interested parties.

ii) Investment Banking Committee ("IBC")

This Committee advises the Executive Committee on its investment banking business and strategy (Corporate Finance, M&A, Private Equity, Leverage Finance, Project Finance and Securitisation).

In addition to the Executive Committee members, the IBC comprises heads of related business areas such as Financial Services, Leverage Finance, Project Finance and Securitisation, Client Origination Portugal, Risk Management - Credit Risk and any other professional designated by the Executive Committee.

The IBC meets once a month, with Mr. José Maria Ricciardi, the CEO, as Chairman, and minutes are prepared by the Executive Committee secretary and distributed to all interested parties.

1 - Mr. Félix Aguirre Cabanyes' executive funcions are effective from 26th January 2006, the registration date of his appointment as Board Director with Bank of Portugal

iii) Investment Committee

The Investment Committee assesses the investment and disinvestment in shares for the Bank's proprietary portfolio, in accordance with the targets and guidelines set out by the Executive Committee.

This Committee is composed of three Executive Committee members, including necessarily the CEO, and two others with from equities and / or market related business units and meets whenever the CEO wishes to convene a meeting. Approval requires numerical majority with the CEO having the right of veto. The Committee can convene by phone.

In addition to BES Investimento Committees there are BES Group Committees who supervise and control the Bank's operations, from an integrated group management perspective.

ii) Wholesale Committee

This Committee advises the BES Executive Committee on Wholesale Banking, and co-ordinates activities between BES Corporate Banking and BES Investimento in the various group territories where the Group is active.

The Committee meets monthly, as a rule, and BES Investimento is represented by Mr. Rafael Caldeira de Castel-Branco Valverde, member of the Bank's Executive Committee.

iii) Global Risk Management Committee

See chapter 5.4. – iv).

iv) ALCO

See chapter 5.4 – ii).

6.3.
How the Board Exercises Effective Control over the Company

In accordance with the Bank's Articles of Association, the Board meets at least once every quarter or whenever convened by the Chairman or by two Board members. The Executive Committee meets once a week, as a general rule, unless an additional meeting is called as a result of operating requirements.

In 2005, the Board met four times and the Executive Committee fifty times.

The Secretarial arm of the Board ensures the Board of Directors and the Executive Committee received adequate and timely information to vote on each point of their respective agenda.

The Executive Committee decisions' are recorded in the meeting minutes and these are made available to the Board.

6.4.
Internal Controls Committees

The CMVM recommends that the Board create internal control committees with appropriate experience of corporate structure and governance.

BES Investimento did not create internal control committees. However the Bank is supervised by its parent's Audit department (see chapter 5.4 – v) and Audit Committee, who are empowered to monitor the company's governance and ensure regulatory compliance domestically and internationally.

Audit Committee

The Audit Committee was created within the BES Board in October 2001 and its jurisdiction extends to all group companies, including BES Investimento and its subsidiaries.

There are three independent and non-executive members: Mr. Mário Martins Adegas, Mr. Luís António Burnay Pinto de Carvalho Daun e Lorena and Mr. José Manuel Ruivo da Pena.

The Audit Committee assists BES with (i) internal and external audit processes, (ii) appointment of external auditors and their fees; assessment of their performance; verification of their professional qualifications and degree of independence; and (iii) on applicable legal, regulatory and Code of Conduct compliance by BES and consolidated group companies and by its directors, professionals and staff.

The Audit Committee is also responsible for:

a) Reviewing the operations, staff and procedures of the company's audit and inspection activities, in addition to reviewing the effectiveness of the internal control checks and risk management of the accounting and audit procedures; and
b) Approval of non-audit services provided to BES and group companies by BES' External Auditors or any member of that firm or professional network.

The Audit Committee acts essentially as a supervisory body and is empowered to conduct investigations within its sphere of responsibility, which may lead to:

a) Asking any professional of the BES group of companies to provide information, which the Audit Committee may deem necessary to the pursuance of its duties, where the professional is duty-bound to supply the necessary information without limitation;
b) Meeting with directors, professionals and / or External Auditors of the BES Group of companies as and when it deems necessary; and
c) Obtaining independent opinions from specialised entities and / or external consultants to perform its duties.

6.5.
Remuneration of the Board of Directors and the Executive Committee

In accordance with the CMVM Recommendations, Board remuneration must be aligned with the company's interests and be published for each member on an annual basis.

Part of the Executive Committee's compensation is variable, based on company results, and is established by the parent and sole shareholder to ensure compensation reflects performance and company interests. The Board's remuneration is published in aggregate (including collective fixed and variable remuneration), thus providing information on the overall cost to the Bank of its Board of Directors.

The Board Directors' overall (fixed and variable) remuneration in 2005 was 4.477 million euros.

In 2005, Executive Committee members of the Bank received 95,027 BES shares, under the Incentive Plan described in chapter 3.3.

As at 31st December 2005, mortgages granted by the Bank to members of the Board of Directors amounted to 440,470 euros in total.

BES Investimento does not have contractually agreed compensation in the event of termination of contract.

The Directors are entitled to a pension or supplementary pension payments if they are or have been part of the Executive Committee. Pensions are calculated in line with the Collective Wage Agreement (ACTV) for the Portuguese Banking sector. Pensions can be drawn when the director reaches 65 years of age or in the case of disability.

Appendix

Other Positions Held By Banco Espírito Santo de Investimento, S.A. Board Directors (As at 31st December 2005)

Name	BES Investimento Role	Other positions held
Ricardo Espirito Santo Silva Salgado	Chairman of the Board of Directors (Non-Executive)	**1. In BES Group companies** CEO and Vice-Chairman of the Board of Directors of Banco Espirito Santo, S.A. Chairman of the Board of Directors of: - BEST - Banco Electrónico de Serviço Total, S.A. - ESAF - Espirito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. - Espirito Santo Overseas, Ltd. - ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A. Vice-Chairman of the Board of Directors of: - Espírito Santo Bank Board Director of: - Banco Espírito Santo, S.A. (Spain) - Banque Espírito Santo et de la Vénétie, S.A. - BES Finance, Ltd. - BES Overseas, Ltd. **2. Outside** Chairman of the Board of Directors of: - BESPAR – Sociedade Gestora de Participações Sociais, S.A. - Casa dos Pórticos – Sociedade de Administração de Bens, S.A. - Espírito Santo Financial (BVI), S.A. - Espirito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. - Espirito Santo Financial Group, S.A. - Espírito Santo Saúde, Sociedade Gestora de Participações Sociais, S.A. - PARTRAN – Sociedade Gestora de Participações Sociais, S.A. - Sociedade de Administração de Bens Pedra da Nau, S.A. Vice-Chairman of the Board of Directors of: - E.S.Holding Administração e Participações, S.A. Board Director of: - Banco Bradesco, S.A. - Cariges, S.A. - Compagnie Bancaire Espírito Santo, S.A. - E.S. Control (BVI), S.A. - E.S. Control Holding, S.A. - E.S. International, S.A. - Espírito Santo BP Invest, S.A.

		- Espírito Santo BVI Participation Limited - Espírito Santo Industrial (BVI), S.A. - Espírito Santo International (BVI), S.A. - Espírito Santo Property (BVI), S.A. - Espírito Santo Resources Limited - GESPETRO – Sociedade Gestora de Participações Sociais, S.A. - Novagest Assets Management, Ltd. Managing Director of: - Espírito Santo Financial Services, Inc. Supervisory Board member of: - IIEB – Institut International d'Études Bancaires (Chairman) - Euronext NV – Sociedade Gestora de Mercados Regulamentados, S.A.
José Maria Espírito Santo Silva Ricciardi	Vice-Chairman of the Board of Directors and CEO	**1. In BES Group companies** Board Director and on Executive Committee of Banco Espírito Santo, S.A. Chairman of the Board of Directors of: - BES Investimento do Brasil, S.A. – Banco de Investimento (S.Paulo - Brazil) - Espírito Santo de Investimentos, S.A. (S. Paulo, Brazil) - Espírito Santo Investment, S.A.U., S.V. (Madrid, Spain) - ESSI – Comunicações, S.G.P.S., S.A. - ESSI – Investimentos, S.G.P.S., S.A. - ESSI, Sociedade Gestora de Participações Sociais, S.A Vice-Chairman of the Board of Directors of: - ESAF - Espírito Santo Activos Financeiros, S.G.P.S., S.A. Board Director of: - Espírito Santo Capital – Sociedade de Capital de Risco, S.A. - Espírito Santo Cobranças, S.A. Manager of Jampur – Trading Internacional, Lda (Madeira, Portugal) **2. Outside** Chairman of the Board of Directors of: -MULTIGER - Sociedade de Compra, Venda e Administração de Propriedades, S.A. Board Director of: - BESPAR – Sociedade Gestora de Participações Sociais, S.A. - COPORGEST – Companhia Portuguesa de Gestão e Desenvolvimento Imobiliário, S.A. - Espírito Santo Financial Group S.A. - Espírito Santo Financial (Portugal) – Sociedade Gestora de Participações Sociais, S.A. - Fomentinvest, S.G.P.S., S.A. Chairman of the AGM: - Controlled Sport (Portugal), Turismo, Cinegética e Agricultura, S.A. - PT Meios – Serviço de Publicidade e Marketing, S.A. Secretary of the AGM: - Espart - Espírito Santo Participações Financeiras, S.G.P.S., S.A. Vice-Chairman of the Supervisory Board of: - Sporting Clube de Portugal

Francisco Ravara Cary	Vice-Chairman of the Board of Directors and on Executive Committee	**1. In BES Group companies** Chairman of the Board of Directors of: - Espírito Santo Capital – Sociedade de Capital de Risco, S.A. - SES Iberia Private Equity, S.A. (Madrid, Spain) Board Director of: - BES Investimento do Brasil, S.A. - Banco de Investimento (São Paulo, Brazil) - Espirito Santo de Investimentos, S.A. (S. Paulo, Brazil) - Espírito Santo Investment, S.A,U., S.V. (Madrid, Spain) - Espírito Santo Research – Estudos Financeiros e de Mercado, S.A. - ESSI – Comunicações, S.G.P.S., S.A. - ESSI – Investimentos, S.G.P.S., S.A. - ESSI, Sociedade Gestora de Participações Sociais, S.A. Manager of Jampur – Trading Internacional, Lda (Madeira, Portugal) **2. Outside** Member of Supervisory Board of: - Concordia Espírito Santo Investment, Sp. z.o.o. (Warsaw, Poland) Board Director of: - Bradespar, S.A. (São Paulo, Brazil) Member of Supervisory Board of "Casa da América Latina"
Rafael Caldeira de Castel-Branco Valverde	Vice-Chairman of the Board of Directors and on Executive Committee	**1. In BES Group companies** Board Director of: - BES Investimento do Brasil, S.A. - Banco de Investimento (São Paulo, Brazil) - ESSI – Comunicações, S.G.P.S., S.A. - ESSI – Investimentos, S.G.P.S., S.A. - ESSI, Sociedade Gestora de Participações Sociais, S.A. **2. Outside** Member of Supervisory Board of: - SEMAPA - Sociedade de Investimento e Gestão, S.G.P.S., S.A. - Academia de Música de Sta. Cecília Vice-Chairman of the Portuguese Rugby Federation
Christian Georges Jacques Minzolini	Board Director and on Executive Committee	**1. In BES Group companies** Vice-Chairman of the Board of Directors and Delegated Director of Espírito Santo Investment, S.A.U., S.V. (Madrid, Spain) General Manager of the Spanish Branch of Banco Espírito Santo de Investimento, S.A. Board Director of: - ESSI – Comunicações, S.G.P.S., S.A. - ESSI – Investimentos, S.G.P.S., S.A. - ESSI, Sociedade Gestora de Participações Sociais, S.A. - SES Iberia Private Equity, S.A. **2. Outside** Board Director of: - Panorama, S.A. Managing Partner of Frazolini – Gestão de Investimentos e Consultadoria, Lda.

Diogo Luís Ramos de Abreu	Board Director and on Executive Committee	**In BES Group companies** Board Director of (executive) ESAF - Espírito Santo Activos Financeiros, S.G.P.S., S.A
Félix Aguirre Cabanyes	Board Director and on Executive Committee [1]	**Outside BES Group of companies** Sole Director of Feviblan Inversiones, S.L. (Madrid, Spain)
Luís Miguel Pina Alves Luna Vaz	Board Director and on Executive Committee	*No other positions held*
Paulo José Lameiras Martins	Board Director and on Executive Committee	*No other positions held*
Pedro Manuel de Castro Simões Ferreira Neto	Board Director and on Executive Committee	**1. In BES Group companies** Board Director of: - Banco Espírito Santo de Angola, S.A. Chairman of the Board of Directors (non-executive) of: - Espírito Santo Concessões, Sociedade Gestora de Participações Sociais, S.A **2. Outside** Executive Board Member of: - ESCOM – Espírito Santo Commerce, Ltd Member of the Supervisory Board of SMCC – Sociedade Mineira do Camatchia e Camagico, S.A.R.L. (Angola)
Ricardo Abecassis Espírito Santo Silva	Board Director and on Executive Committee	**1. In BES Group companies** Non-executive Board Director of Banco Espirito Santo, S.A. Chairman of the Board of Directors of: - Banco Espírito Santo de Angola Board Director and Chairman of the Executive Divisions of: - BES Investimento do Brasil, S.A. – Banco de Investimento - Espírito Santo Investimentos, S.A. (Brazil) Vice-Chairman of the Board of Directors of: - Espírito Santo Bank Board Director of: - BES Finance, Limited Director of: - Europ Assistance (Brazil) - Gespar S/C Ltda. (Brazil) Chairman of the Supervisory Board of: - Banco Espírito Santo do Oriente, SA (Macao) **2. Outside** Board Director and Chairman of the Executive Divisions of: - E.S. Holding (Brazil) - Seicor – Comércio, Administração e Participações, S.A. (Brazil) Board Director of: - Bradespar, S.A. (Brazil) - E.S. Control Holding, S.A.

1 - Mr Féliz Aguirre Cabanyes was appointed Board Director at the 22th November 2005 AGM and his appointment was registered with Bank of Portugal as of 26th January, 2006

		- ESPART – Administração e Participações, S.A. - Espirito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. - Espírito Santo International - Espírito Santo Resources Limited (Bahamas) - Euroamerican Finance Corporation, Inc. - Monteiro Aranha, S.A. (Brazil) - Novagest Assets Management, Ltd - USHUAIA – Gestão e Trading Internacional, Ltd Replacement member of the Board of Directors of: - Agribahia, S.A. (Brazil) Managing Director of: - ESAI – Espírito Santo Ativos Imobiliários, Lda. (Brazil) - InterAtlântico S.A. (Brazil) Director of: - Associação Espírito Santo Cultura - Câmara Portuguesa de Comércio no Brasil - ESAP Brasil Agro-Pecuária - ESCAE – Administração e Participações, Ltda (Brazil) - ES Consultoria - Joá Imobiliária Ltda. Member of the Advisory Board to: - Portugal Telecom (Brazil) Member of the Supervisory Board of: - Banco Bradesco, S.A. (Brazil)
Tiago Vaz Pinto Cyrne de Castro	Board of Director and Member of the Executive Committee	**1. In BES Group companies** Board Director of: - Espírito Santo Capital - Sociedade de Capital de Risco, S.A. - Espírito Santo Investment p.l.c. - ESSI – Comunicações, S.G.P.S., S.A. - ESSI – Investimentos, S.G.P.S., S.A. - ESSI, Sociedade Gestora de Participações Sociais, S.A. Member of the Supervisory Board of: Besleasing e Factoring – Instituição Financeira de Crédito, S.A. **2. Outside** Board Director of: - Cominvest – Sociedade de Gestão e Investimento Imobiliário, S.A. - MULTIGER - Sociedade de Compra, Venda e Administração de Propriedades, S.A.
Amílcar Carlos Ferreira de Morais Pires	Board Director [1] (Non-Executive)	**1. In BES Group companies** Board Director of and on Executive Committee of Banco Espírito Santo, S.A. Executive Chairman of the Board of Directors of: - Bank Espírito Santo (International) Limited Executive Board Director of: - BES Finance, Limited

1 - Mr Amílcar Morais Pires was appointed Board Director at the 22th November 2005 AGM and his appointment was registered with Bank of Portugal as of 26th January, 2006.

		- BES Overseas, Limited - Espírito Santo p.l.c. (Ireland) Board Director of: - Banco Espírito Santo do Oriente, S.A. (Macao) - ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. **2. Outside** Board Director of: - Companhia de Seguros Tranquilidade-Vida, S.A. - MTS Portugal – Sociedade Gestora do Mercado Especial de Dívida Pública, S.G.M.R., S.A. Member of Disciplinary Committee to the International Securities Markets Association (ISMA)
António Espírito Santo Silva Salgado	Board Director (Non-Executive)	**Outside BES Group of companies** Chairman of the Board of Directors of: - Controlled Sport (Portugal) – Turismo Cinegética e Agricultura, S.A. - Empresa das Águas do Vimeiro, S.A. - Empresa Hotel Astória de Monfortinho, S.A. - MONFORTUR - Monfortinho Turismo, S.A. Board Director and Managing Head of: - Companhia das Águas da Fonte Santa de Monfortinho, S.A. Board Director of: - Cinegitur – Empreendimentos Cinegético-Turísticos, S.A.
Bernard Marcel Fernand Basecqz	Board Director (Non-Executive)	**Outside BES Group of companies** CEO and Managing Director of: - Kredietbank (Suisse), S.A. Vice-Chairman of the Board of Directors of: - Privagest (Genebra, Suiça) Board Director of: - Kredietbank Luxembourg (Monaco), S.A.M. - Lebanon Holding (Investment Fund – Sicav, Luxemburgo)
Bernardo Ernesto Simões Moniz da Maia	Board Director (Non-Executive)	**Outside BES Group of companies** Executive Vice-Chairman of the Board of Directors of Mague Gestão e Participações, S.G.P.S., S.A. Board Director of: - Aqua - Yser, S.A - DEPIN – Produtos Depilatórios, S.A. - Euro - Yser, Produtos Químicos, S.A. - FINOVA, S.G.P.S., S.A. - G.P.M.G.- Gestão e Participações, S.G.P.S., S.A. - IMOMAGUE, S.A. - RIOS & OCEANOS - Sociedade de Exploração Turística, S.A. - SOGEMA - S.G.P.S., S.A. - TOTALPART - S.G.P.S., S.A.

Duarte José Borges Coutinho Espirito Santo Silva	Board Director (Non-Executive)	No other positions held
João Filipe Espírito Santo de Brito e Cunha	Board Director (Non-Executive)	**1. In BES Group companies** Member of the Board of Directors of: - Banco Espírito Santo de Angola, S.A. **2. Outside** Member of the Board of Directors of: - Banco Espírito Santo Sailing Team, S.L. (Spain). - ESLUMO (Spain) - Espírito Santo Properties (Spain) - Eunea Investments, S.L. (Spain) - Sociedade Imobiliária e Turística da Quinta do Perú, S.A.
José Manuel Pinheiro Espírito Santo Silva	Board Director (Non-Executive)	**1. In BES Group companies** Board Director of and on Executive Committee of Banco Espíritro Santo, S.A. Chairman of the Board of Directors of: - Banco Espírito Santo, S.A. (Spain) - Fiduprivate – Sociedade de Serviços, Consultoria, Administração de Empresas, S.A. Board Director of: - Banque Espírito Santo et de la Vénétie, S.A. - ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. - Espírito Santo Bank - Europ Assistance - Companhia Portuguesa de Seguros de Assistência, S.A. **2. Outside** Chairman of the Board of Directors of: - Compagnie Bancaire Espírito Santo, S.A. (Lausanne) - Sociedade Imobiliária e Turística da Quinta do Perú, S.A. Vice-Chairman of the Board of Directors of: - ESFG Overseas Limited - Espírito Santo Financial Group, S.A. - Espírito Santo Financial (Portugal) – Sociedade Gestora de Participações Sociais, S.A. Board Director of: - BESPAR – Sociedade Gestora de Participações Sociais, S.A. - E.S. Control Holding, S.A - Espírito Santo Internacional, S.A. - Espírito Santo Resources Limited - Espírito Santo Services, S.A.

Manuel de MagalhãesVillas-Boas	Board Director (Non-Executive)	**1. In BES Group companies** Non-Executive Board Director of Banco Espirito Santo, S.A. Vice-Chairman of the Board of Directors of: Espírito Santo Overseas, Limited Board Director of: - BES Finance Limited - BES Overseas Limited **2. Outside** Board Director of: - ESFG Overseas Limited - Espirito Santo Financial Group, S.A - Espirito Santo Investment Management
Mário da Silveira Teixeira Júnior	Board Director (Non-Executive)	**1. In BES Group companies** Vice-Chairman of the Board of Directors of: - BES Investimento do Brasil S.A. - Banco de Investimento **2. Outside** Vice-Chairman of the Board of Directors of: - Companhia Vale do Rio Doce Board Director ad on Executiva Management of: - CPFL Energia, S.A. Member of the do Board of Directors of: - Banco BEC, S.A. - Banco Bradesco S.A. - Bradesco Leasing, S.A. – Arrendamento Mercantil - Bradespar S.A. - Bradesplan Participações, S.A. - Cidade de Deus – Companhia Comercial de Participações - ELO Participações, S.A. - Valepar S.A. Director of: - NCF Participações, S.A. - Nova Cidade de Deus Participações, S.A. - Top Clube Bradesco, Segurança, Educação e Assistência Social Member of the Staff Remuneration Committee of Bradesco Trustee and Managing Director of the Bradesco Foundation Member of the Board of Directors and Managing Director of the Foundation for Digestive Tract and Nutritional Complaints Note: All the above are Brazilian based companies.

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